



U.S. Department of State FY 2001 Country Commercial Guide: Russia

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CHAPTER I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Russia's commercial climate. CCGs were established by recommendation of the Trade Promotion Coordinating Committee, a federal multi-agency task force, to consolidate various reports prepared for the U.S. business community. CCGs are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies, under the leadership of the U.S. Commercial Service.

A. Emerging Business Climate

The effects of the 1998 financial crisis are continuing to dissipate and economic and political factors have turned increasingly favorable for business in Russia for the near term and possibly longer, if the new Russian administration can make good on its design for reform. Favorable economic signs include economic growth likely to top 4% this year, annual inflation reduced to about 18%, a large balance of payments surplus, and real investment up 4.5%, the first increase since 1990. Moreover, on the policy front, President Putin's administration has declared its intention to improve the business climate and seek more foreign investment, and it has produced an economic strategy document spelling out its plans. It has delivered the first installments on these commitments by recently pushing through a major tax reform and maintaining tight fiscal discipline for the past year.

There are, nevertheless, a number of factors that limit the prospects for growth in some sectors and could even cut short the current expansion. Perhaps the greatest overall difficulty is Russia's slow progress in restructuring the banking sector to the point where it has the capability to attract substantial savings and channel them to productive investments. The government's continued poor credit ratings, Russian government limits on sovereign guarantees, and the weakness of domestic banking institutions have restricted lending by the U.S. Export Import Bank (Exim Bank). However, some Exim Bank lending continues under the Oil and Gas Framework Agreement and where government or other guarantees can be obtained. In addition, consumer purchasing power is recovering very slowly from a 30% drop in personal income after the 1998 crisis.

On balance, however, the 2000-2001 period could renew the intensity of U.S. business interest in Russia. In the wake of the economic crisis, U.S. exports fell by about half to \$1.85 billion in 1999, but there have been signs of moderate recovery this year. The pace of U.S. investments recovered by the fall of last year and reached a level of \$2.92 billion, 30% above 1998 and nearly equaling 1997. The United States is near Germany as the top international investor country in Russia, and U.S. investment appears to be continuing to rise at a moderate pace.

Nevertheless, these levels will remain far below per capita investment levels in other transitional economies in Eastern Europe. Russia also plays a very small role in overall U.S. trade—less than 1% of combined imports and exports in 1999. These levels are far below the commercial potential of a nation with almost 150 million highly-educated people and with abundant, exportable industrial commodities and natural resources.

B. Leading Sectors for U.S. Exports and Investment

The strength of leading sectors are likely to be decidedly mixed in the coming year as some sectors recover smartly, and others appear to face limited prospects or stagnation until conditions change. The oil and gas industry is expected to remain the leading sector both in size of market and potential growth not only because of high oil prices but also due to new sources of financing, slowly advancing Western investment projects and evolving pipeline projects. Telecommunications is the next strongest sales and investment prospect, as Russia shows a strong demand for modernized communications infrastructure, and the industry is opening up through privatization, intensified competition and entry of foreign investors. Although computer hardware sales are off, related high tech areas of the Internet, e-commerce and off-shore programming are showing signs of beginning rapid growth from a low base.

There are likely to be substantial sales in other leading areas, but growth may be limited and this year's sales may not reach pre-crisis levels. This could apply to such areas as mining and construction equipment, automotive equipment, aircraft, and agricultural and food processing equipment - areas affected by the difficulty of obtaining financing from export credit agencies and, in some cases, government regulatory barriers. Finally, in consumer goods sectors - although some U.S. companies are doing well, others face difficulties because personal consumer buying power remains low and competition is stiff from European and domestic sources. Under such circumstances, U.S. firms may find it difficult to enter the market or to increase sales in such areas as beauty products, pharmaceuticals and appliances, and some are exploring investing in local production.

Given reform and moderate growth, Russia could become a major market for U.S. industrial equipment and engineering services which are vitally needed to modernize its industry and agriculture. However, major sales will not be possible until Russia restructures its financial system, reestablishes international credit, and reorganizes its industry so that individual companies are solvent customers, and creates additional investment opportunities. In the short term, industries such as aluminum, steel, transportation equipment, food production and packaging and forestry products seem to have sufficient cash flow and proper organization to be potential prospects for trade or investment. In future years, there may be almost unlimited demand in such sectors as electric power and agricultural equipment for U.S. products and services, but until organizational and financing problems are solved, they have been dropped from the leading sectors list.

With respect to food products, Russia remains a good market for imports since its agricultural industry is unable to meet demand, particularly in the processing sector. Since the crisis, there have been strong indications that economic recovery is on the way, and when it is achieved, Russia should regain its place as a strong and dynamic market for U.S. agricultural and food exports. In the short term, products offering the greatest potential include poultry, frozen and processed red meats (primarily for further processing), fresh fruit (apples), fish and seafood items, and pet foods. It is also expected that, following the promotion associated with the recent U.S. food aid program deliveries, the following bulk and intermediate agricultural products have good export potential: wheat, wheat flour, soybeans, soybean meal and cake, feed corn, and planting seeds.

In terms of business location, Moscow and its surrounding region are far ahead in industrial growth and received a third of all foreign investment in 1999. Nevertheless, competition is intensifying and some sectors in the capital region may be saturated for the time being. St. Petersburg and its surrounding region are nearly as advanced in most indicators of development and attracted 10.3% of foreign investment in 1999. In coming years, the fastest growth opportunities may be found in other regional cities which are working to develop favorable business environments. A group of such cities have been recognized by the U.S. Embassy as sites for its Regional Initiative Program: Novgorod, Samara, Tomsk and Yuzhno-Sakhalinsk.

C. U.S. Presence and Third-Country Competition

The U.S. Commercial Service (CS) believes that practically all U.S. companies that established operations or major trading relationships in Russia have chosen to weather the storm and, indeed, many have since implemented investment projects that were put on hold in 1998. On the other hand, fewer new U.S. companies are exploring the market and the level of U.S.

participation in major trade shows is still down. European companies, on the other hand, appear to be aggressively marketing in Russia, establishing distribution channels and taking over market share as Russian demand rebounds. Western European firms are active throughout Russia in most industrial sectors and are particularly strong in consumer goods. In the Far East, Urals and Siberia, Asian firms are marketing aggressively, notably in autos and lower-cost consumer goods. In the Northwest, Scandinavian and Finnish firms are prevalent in infrastructure development. Turkish firms are strong in the construction industry in many areas and are increasingly successful in retailing. Russian firms offer low-cost competition in most sectors, and have gained a further advantage as a result of the ruble's depreciation in 1998-1999.

D. Doing Business in Russia and Keys to Success

Although Russia presents many opportunities, special challenges abound. Weak financial institutions that cannot provide routine financing for purchases and the current unavailability of U.S. Exim Bank financing exacerbate the problem (although OPIC financing is available). A related problem is finding credit-worthy customers in an environment where due diligence information is limited and many firms are tangled in a web of payment arrears and barter transactions. For these reasons, finding good Russian partners and agents is particularly important. Despite all of these challenges, however, hundreds of U.S.-owned businesses do manage to conduct regular business in Russia.

There is hope that new reform laws are slowly, but steadily taking some of the confusion out of the legal situation. In the past two years, the adoption of comprehensive new codes has begun the rationalization of civil law, customs and taxation. Of particular importance to business is the new tax law, which will not be completed until a third and final set of chapters is passed this fall. The new law establishes a simplified tax framework, modern legal language, and reduced levels of taxes. Hopefully, the new atmosphere will also create a new civility in enforcement by the Tax Police, an investigatory body that often conducts unannounced on-site investigations, sometimes employing harsh measures.

Another key area is the settlement of disputes that are adjudicated through the Arbitration Court system. Foreign companies can win cases, but must struggle to get judgments enforced. Major U.S. accounting firms and many experienced Western law firms are available in Moscow and St. Petersburg to provide authoritative interpretations and defense. While crime and corruption are prevalent, most firms report they are able to comply with the U.S. Foreign Corrupt Practices Act. High operating costs are also a problem, but the situation is easing. The cost of commercial rent, for example, declined due to a sharp fall in demand following the 1998 crisis and the subsequent arrival of new "class A" space on the real estate market.

U.S. companies' quality and innovation give them an advantage even in this price-sensitive market, but those that approach Russia with an eye toward quick sales and low up-front investment are typically disappointed. Conversely, firms which research tax, customs and other requirements with professional sources in advance, which visit Russia often to cultivate customers, which produce product literature in Russian, and which invest sufficiently in marketing and distribution channels often do find success. Permanent representation in Russia is generally considered essential.

E. The U.S. Commercial Service (CS) and the Foreign Agriculture Service (FAS) in Russia

The U.S. Commercial Service (CS) and the Foreign Agricultural Service maintain operations headquartered at the U.S. Embassy in Moscow to assist U.S. businesses. CS Russia

maintains offices at the U.S. Consulates General in St. Petersburg, Vladivostok and Yekaterinburg; FAS has staff in St. Petersburg and Vladivostok. Both agencies support U.S. firms with a broad range of services, including customized counseling, tailored market research, agent/distributor search services, individualized appointments (Gold Key Service), trade promotion events and, where appropriate, advocacy on specific projects and problems.

Country Commercial Guides (CCG) and other information about CS services, programs and trade promotion events are available on the U.S. Commercial Service website USATrade.gov. Additional information on doing business in Russia may be obtained from the U.S. Department of Commerce's Business Information Service for the Newly Independent States (BISNIS) at its website (www.bisnis.doc.gov) or by telephone (202-482-4655) and fax (202-482-2293). U.S. exporters seeking general or country-specific export information and assistance should contact the U.S. Department of Commerce's Trade Information Center (TIC) by telephone (1-800-USA-TRAD) or fax (202-482-4473). Hard copies or diskette versions of CCGs may be ordered from the National Technical Information Service by telephone (1-800-553-NTIS). Finally, CCGs are also available on the National Trade Data Bank CD-ROM - contact STAT-USA at www.stat-usa.gov or by telephone (1-800-STAT-USA) for details.

CHAPTER II: ECONOMIC TRENDS AND OUTLOOK

A. Major Trends and Outlook

Halfway through this year, the Russian economy looks much healthier than anyone would have imagined a year ago. Economic growth is continuing, inflation is moderate, the ruble is stable, net international reserves are again positive, and investment is increasing. President Putin's election has brought a sense of political stability, which is a plus for investors. Russian GDP grew 3.2% in 1999, and industrial production advanced 8.1%. The major stimulus came from higher net exports, particularly due to higher oil and commodity prices and substantially lower imports. Most notably, real investment was up by 4.5%, the first increase since 1990. Analysts are raising their 2000 growth forecasts. The Economics Ministry raised its forecast from 1.5% to 4.5%, with some private estimates as high as 6.2%. Growth will likely be led by a recovery in domestic demand, with net exports contributing less than last year. Russia's macroeconomic framework is particularly favorable, enjoying both current account and federal budget primary account surpluses. The Central Bank of Russia (CBR) has accumulated international reserves and has not financed the budget; the Russian government has used its primary surplus to service more of its debts; inflation has moderated and the ruble has firmed in nominal terms. In large part, this favorable dynamic is due to an improved fiscal situation. The government's 1999 budget was the first Russian budget ever passed and fully executed. Substantially improved revenue collection has continued in 2000, ahead of budget every month in the first quarter, with a primary surplus of 3.5%. Higher oil and gas prices, increased turnover, the expansion of the Treasury system, improved tax administration, and insistence on cash tax payments have all contributed to better budget results.

Nonetheless, the current rosy economic scenario poses some risk for foreign trade and investment. First, domestic competition has increased as Russian producers have benefited from a combination of steep ruble devaluation, high world commodity prices, and low domestic energy and unit labor costs. So, previous cost advantages are fading. Furthermore, international oil prices are moderating, while domestic energy prices are rising. In real terms, labor costs are rising and the ruble is slowly appreciating. The continuing weakness of the banking sector limits

lending to the real economy, contributing to working capital restraints on growth. Higher domestic liquidity resulting from the CBR's accumulation of international reserves poses risks for inflation, especially as domestic demand recovers. The CBR has only a few instruments to affect monetary policy but has coped well to date, aided by what appears to be social consensus in Russia against inflation.

B. GDP and Production

1999 was the best year for economic growth in Russia since the collapse of the Soviet Union. Real GDP growth was 3.2%, ahead of most estimates. The major factors in 1999's record economic growth were:

- The devaluation of the ruble, which made Russian products competitive abroad and at home
- High commodity prices on international markets, particularly oil, while domestic costs were substantially lower
- Low inflation and a consensus that inflation must be controlled
- A healthy fiscal situation based on strict government budget discipline.

The major factor contributing to growth last year was trade performance. Exports were up slightly to \$74.3 billion, while imports slumped by 30.5% to \$41.1 billion. Consequently, net exports ballooned to \$33.2 billion, more than double the previous year's level. After a weak start, imports and exports recovered somewhat in the second half of the year, as the economy stabilized. Higher oil prices had a major effect on export performance, particularly in the latter half of the year. Even though volumes of crude oil exports (to non-CIS countries) were down by 2.9%, prices jumped 45.9%. Fuels and energy comprise 42% of Russian exports. Other exports performed better in 1999: fertilizer exports were up 16.7%, forestry products up 38%, copper up 17.6%, and aluminum up 10.5%. Contrasting with strong export performance, imports of food and consumer goods suffered, with food imports alone dropping 28%.

Most analysts see these trends continuing in 2000. The Russian government forecasts an export increase of 4% and an import increase of 8% resulting from a stronger ruble and leading to more purchasing power. However, imports in the first quarter of 2000 remained flat at \$9.4 billion, compared to \$9.5 billion in the same period in 1999. Exports continued to benefit from higher oil prices, bolstered by higher natural gas prices. In the first quarter of 2000, exports were up \$6 billion, effectively doubling Russia's year-on-year trade surplus from \$6.1 billion to \$12.1 billion.

Increased industrial production was another bright point in 1999 that has extended into 2000. Industrial production increased 8.1% in 1999. Growth in the first quarter of 2000 was 11.4% year-on-year. During the last quarter of 1999 and the first quarter of 2000, the increase in industrial production averaged 2.5% month-on-month (dragged downward by a 7.9% decline in January, attributable to seasonal variations). Continued growth in electricity production and rail freight confirms this increased level of economic activity. Based on January 2000 data, however, industrial production has not grown, in seasonally adjusted real terms, since July 1999.

Although some Russian companies have benefited from the devaluation windfall in terms of price, overall investment has been slow. In 1999, investment in fixed assets increased by 4.5%, the first such growth since 1990. The increase came in the last half of 1999, and has continued in the opening months of 2000, with fixed investment up 5.9% year-on-year in the first quarter. Higher retained earnings, increased cash transactions, the positive outlook for sales and political stability have contributed to these favorable trends. Over the medium-to-long term,

Russian companies that do not improve their competitiveness will find it harder either to expand exports or protect their recent domestic market gains from higher quality imports.

Foreign direct investment (FDI) rose slightly in 1999, but remains small. U.S. investment in 1999 was \$2.9 billion, up from \$2.8 billion in 1998.

A significant drawback for investment is the financial services sector. Banks do not have the resources, the capability, or the population's trust to attract substantial savings and channel them to productive investments. While ruble lending has doubled since the August 1998 financial crisis, loans remain at the pre-crisis level of 28% of total bank assets. The CBR has reduced its refinancing rate three times in 2000, to 33%, signaling an attempt to lower lending rates. Banks still perceive commercial lending as risky, and some banks are inexperienced assessing credit risk. The CBR is developing a procedure to finance banks for promissory notes, rights of claim under credit agreements, and mortgages.

Reported levels of barter transactions declined in 1999, stabilizing during the last quarter of 1999 and the first quarter of 2000. The Russian government reports increased payment of taxes in cash, and increased cash receipts by natural monopolies. The total of enterprise arrears continues to slowly decrease, down 4% in March month-on-month. Use of "Veksels" dropped from 19.7% of sales in January 1999 to 8.3% in January 2000. The share of cash payments to natural monopolies and the largest companies has increased, from 46.6% in January 1999 to 63.1% in January 2000.

Domestic demand slumped in 1999, real income shrank dramatically, and real consumption of goods and services declined by 14.3%. Per capita income was down 22%. Real wages in Russia remain 14% below their 1997 average despite a steady increase during the last quarter of 1999 and a further increase in January 2000. Wage arrears continue to shrink, down to 43.5 billion rubles in February, of which budget arrears were 9.4 billion rubles. Unemployment remained approximately 12.3% (using International Labor Organization methodology) during the last quarter of 1999 and the first quarter of 2000. This positive trend contributed to a boost in real consumer spending during the last quarter of 1999 and the first quarter of 2000. January and February 2000 retail sales were up 5.9% and 7% from January and February 1999 respectively, but remain 12.8 and 6.5% below 1998 levels.

A consumer survey for March 2000 showed the highest level of consumer confidence recorded since the beginning of the survey in January 1993. The index has risen steadily since July 1999, with respondents noting improved personal finances and decreased worries about unemployment, inflation and political instability. This is a positive sign of a potential increase in domestic demand, as it indicates more willingness of Russian consumers to spend.

C. Monetary and Exchange Rate Policies

Monetary policy continued to be moderately restrained during the last quarter of 1999 and the first quarter of 2000. The CBR utilized Russia's current account surplus to build up its international reserves, which have risen from \$11.2 billion on October 1, 1999 to \$17 billion on April 21, 2000. Base money increased 24.7% during the last quarter of 1999 and first quarter of 2000. This increase was associated with a rise in net international reserves and cash settlements for restructured GKO's (Russian government short-term debt obligations). Although some of this increase may be met by higher demand for money, it has also contributed to higher liquidity in the banking system. The absence of short-term money market instruments (e.g., T-bills) to "sterilize" inflows creates risks of inflation, most immediately from pressure on the dollar/ruble

exchange rate. The CBR, however, increased reserve requirements in January and expanded its deposit mechanisms to absorb some of the higher liquidity.

Notwithstanding these risks, inflation has declined steadily during the past year. Inflation was 36.5% in 1999, but fourth quarter price increases were only 3.7%. In the first quarter of 2000, the Consumer Price Index rose by 4.1%. The Russian government's new forecast places inflation between 12 and 14% in 2000. Potential price pressures in the coming months are exhibited by a large disparity between increases in the producer price index and the consumer price index, which rose 67.3 and 36.5%, respectively, in 1999 and, on average, 3.5% and 1.3% per month in the first quarter of this year. At some point, some of the producer price increases may be passed to consumers. A brisk 5.7% pickup in the March monetary base, higher public sector wages and pensions, payment of wage and pension arrears, and increased utility tariffs also will contribute to stepped-up price pressures. Factors dampening price increases include weak domestic demand, a relatively stable ruble and the absence, to date, of a federal budget deficit for the CBR to monetize. Despite imports being cut by one-third, exchange rate fluctuation and expectations still have a significant influence on price expectations as many domestic prices are pegged indirectly to the U.S. dollar.

The CBR foresees moderate ruble depreciation against the dollar during 2000. The bank recently indicated that the ruble 32/\$ average exchange rate for 2000 may have been too pessimistic. Although the CBR does not have an exchange rate target, one objective of its exchange rate regime is to prevent sharp fluctuations. The exchange rate declined slowly during the last quarter of 1999, falling from 25.2 rubles to the dollar to 26.9. In January, however, the rate fell sharply, to 28.6 (due to seasonal and extraordinary factors). In February and March, the ruble appreciated in nominal terms before sliding back to end March at 28.5 to the dollar.

The CBR uses several administrative controls to limit capital flight and to direct inflows to the foreign exchange market. In September 1999, the CBR imposed a 100% import deposit requirement, which is also applied to prepaid services contracts. There are proposals in the Duma, Russia's legislative body, which would require pre-registration of export contracts. Furthermore, the proposals would require banks to report suspicious transactions such as those used to circumvent capital flight restrictions. The CBR has implemented or tightened several controls on foreign exchange. These controls include restricting foreign exchange for import contracts, requiring 75% of repatriated export proceeds to be sold on authorized exchanges, not allowing banks to trade on their own accounts, and by requiring banks to deposit amounts equivalent to those it holds in S-accounts of non-residents. Under such conditions, CBR intervention in foreign exchange markets should be needed only to smooth volatility.

D. Fiscal Policy

Fiscal policy has been very disciplined. In 1999, the overall budget deficit was 1.7%, with a primary surplus of 2%. 1999 was the first year the federal budget was fully implemented. Strong fiscal performance is continuing in 2000. Revenue collections have exceeded targets every month, with first quarter revenues at 17.8% of GDP, compared with 11.8% for the same period in 1999. This helped the government run a primary surplus of 3.5% of GDP during the first quarter, and the administration estimates that it will exceed revenue forecasts for 2000 by about 100 billion rubles, collecting a total of 897.2 billion rubles.

The increase in cash revenues partly reflects growing economic activity and increased receipts from large taxpayers, e.g. oil companies and natural monopolies. The government's budget is predicated on an \$18 per barrel average price in 2000, well below the average for the

first three months. Arrears to the federal government declined slightly in February, although deferred payments increased by almost the same amount.

The largest expenditure in the 2000 budget is debt service, at 220 billion rubles (\$6.9 billion using a rate of 32 rubles to the dollar). This item accounts for 25.7% of budgeted expenditures. In 1999, with limited access to financing from international financial institutions or bilateral sources, Russia serviced around half its external debt payments, and sought delays in servicing Soviet-era debt. In February, it reached agreement on a restructuring package with its London Club creditors that provided a 33% write-off of the debt stock. The government hopes to reach agreement with its Paris Club creditors during 2000.

Financing the overall budget deficit in the first quarter of 2000 was accomplished without direct borrowing from the CBR (the budget permits borrowing up to 32 billion rubles). The government met its financing needs from a high primary surplus, increased revenues from the previous year, and some foreign credits. The government re-entered the domestic debt market in February 2000 with a successful 3.5 billion ruble auction of government T-bills, and again in April 2000, placing R3.7 billion.

E. Capital Markets and Portfolio Investment

The banking sector is slowly recovering from the 1998 financial crisis. The CBR reports that as of January 2000, 80 of the 1349 licensed banks in operation showed symptoms of insolvency, down from 320 in April 1999. Part of that reduction is due to CBR revocation of 250 bank licenses.

Aggregate capital in the banking sector (excluding Sberbank) has risen, from 41.2 billion rubles in March 1999 to 111.3 billion rubles in December 1999. In U.S. dollar terms this is still only about one-half of the capital in the banking system in June 1998. Surviving banks have difficulty raising capital because it is difficult to generate significant returns on ruble assets relative to funding costs. If industrial sector performance continues to improve, banks may begin lending to industry. That positive dynamic, however, will take time, effort and more capital.

Total assets of the banking system have increased, to 1.7 trillion rubles in January 2000, but still represent in dollar terms only 55% of their pre-crisis level. Likewise, lending to "the real sector" has nearly doubled since the autumn 1998, to 426 billion rubles (as of December 1999), but is still only 26% of total bank assets, slightly less than before the financial crisis.

The Russian Agency for Restructuring of Credit Organizations (ARCO) continues to restructure parts of the banking sector. It has initiated 17 projects, primarily aimed at smaller regional banks. With initial capital of only 10 billion rubles, ARCO has very limited scope for restructuring activities. Moreover, it has been tasked with restructuring two large banks, SBS-Agro and Rossiyskiy Credit. To date, ARCO has not successfully restructured any large bank, nor has it sold any of its interests in smaller banks.

The rebuilding of financial and banking markets in Russia will take time, although the Finance Ministry's placement of new T-bills in February will help revive the short-term money market. A few large Russian companies continue to issue corporate bonds. Discussions have intensified to create a negotiable commercial paper market, a development that would allow many managers to access the market directly for short-term needs.

Russia's equity markets continue their slow recovery from the 1998 financial crisis. In March 2000, total market capitalization reached \$43.2 billion, nearly double the \$22.8 billion in 1999, but still well below its January 1998 high of \$72 billion. Liquidity remains a problem, with volumes very low on all but blue chip issues. Most share trading continues to take place

off-exchange to avoid the 0.8% tax and disclosure of share ownership, and to allow transactions to occur using buyers' and sellers' offshore accounts.

F. Regional Commercial Trends

1. Central Russia Region

- The City of Moscow (Population: 10 million)

Moscow's population, when combined with that of the surrounding oblast (region), makes up over 10% of Russia's total population. Together, the city and the oblast represent by far the largest and wealthiest metropolitan consumer market. Moscow is Russia's undisputed political and financial center; it has superb infrastructure (by Russia's standards) and a strong industrial base. Thus, during the first quarter of year 2000, industrial growth reached 14%. The city of Moscow is also the leading international partner with the highest amount of cumulative foreign investment of \$13 billion (direct, portfolio, and other.)

Moscow's government is active in facilitating business development. It emphasizes the importance of such sectors as high technologies, pharmaceuticals, tourism, and the food industry.

- Moscow Oblast (Population: 6.7 million)

Moscow Oblast offers a unique mix of opportunities to local companies and foreign investors. Foreign companies in the oblast enjoy proximity to Moscow's consumer market while retaining reduced production and overhead costs. Moscow Oblast offers a well-developed business infrastructure including a transportation network, telecommunications, and a services market. The Moscow Oblast Customs Department oversees seven customs posts and processes one-third of Russia's trade volume.

Although the city of Moscow is the capital of Moscow Oblast, the oblast and the city are two separate administrative entities. Since 1997, Moscow Oblast's administration has adopted several laws that provide foreign investors with significant tax privileges and guarantees. Moscow Oblast has significantly large industrial potential, it specializes in machine building (mainly electronics, instrumentation, and aerospace), metal processing, chemical production, construction materials, and textiles; it also possesses a well-developed agricultural sector. From 1992 to 1999, Moscow Oblast reportedly attracted more than \$2.5 billion of foreign investment and established 510 joint projects with foreign entrepreneurs. Recently, it received foreign investments in the dairy, automotive, chemical, and furniture sectors. A dozen U.S. companies operate in the region.

Moscow Oblast ranks among Central Russia's regions with the lowest investment risk. In both the city and oblast of Moscow, companies generally do not face the liquidity problems endemic in other Russian regions.

- Kaluga Oblast (Population: 1.1 million)

The Kaluga region is located in Central Russia, adjacent to Moscow Oblast and is 180 kilometers south of the national capital. Major industries include machinery and metallurgy, food processing, wood and paper, and electrical engineering. Kaluga's industrial sector faces challenges common to all of Russia's 89 regions: lack of investment for reconstruction and modernization, government cutbacks in orders to former defense enterprises, and a disrupted distribution network. Currently, 200 companies with foreign capital are operating in Kaluga

Oblast, including 48 representative offices of foreign companies. Both domestic and foreign investors are eligible for tax breaks from the oblast administration under a number of legislative acts adopted to improve the investment climate in the region. The Kaluga regional administration offers tax cuts to companies reinvesting their profit in local production or lending funds to scientific research centers for development of new technologies. The administration can also participate in investment projects and will consider providing guarantees for investments.

- Tula Oblast (Population: 1 million)

Covering an area of 25,700 square kilometers, Tula is 100 miles south of Moscow. The region has attracted some well-known foreign companies through tax and investment incentives. The most developed industries include the machinery, metallurgy, chemical and woodworking sectors, as well as food processing and power generation. Tula is the only Russian region boasting completely digitized telecommunication. Among Central Russian regions, Tula is third (behind Moscow and the Moscow Oblast) in exports to non-NIS countries. Dozens of foreign companies find Tula attractive. However, although over 100 companies (including 22 with direct foreign participation) have started operations in Tula, it still has the smallest foreign business community in Central Russia. Tula's investors produce a quarter of the region's industrial output. The presence of large American corporations in Tula may make it more accessible to American companies. Compared to other Central Russia regions beyond Moscow and Moscow Oblast, Tula is the largest foreign investment recipient.

- Tver Oblast (Population: 1.6 million)

Tver is rich with forests and water and is the source of fresh water for central Russia and the city of Moscow. The oblast has an excellent location in terms of access to the two largest metropolitan areas in Russia: Moscow and St. Petersburg. Tver's industry is concentrated in electrical energy, machine building, food processing, light industry and textiles, and wood processing. Agribusiness in the oblast is mainly concentrated in flax harvesting and dairy and meat processing. Tver Oblast used to produce up to 40% of all flax in Russia. Despite 35 textile plants, not all flax is processed locally; the majority of the local mills work with resources purchased elsewhere. One reason for using imported materials is the region's lack of processing equipment. New, contemporary technologies are needed. The timber and wood processing industries also hold potential for development as the region refocuses from exports of raw materials to more local processing.

- Ryazan Oblast (Population: 1.5 million)

Foreign investors have only started to take notice of Ryazan. Due to its high concentration of defense enterprises, the region had been closed to foreign visitors during the Soviet era. It acquired the reputation of being "red zone" and this has impacted economic development. However, the situation is rapidly changing. The energy, oil refining, machine building, construction and food-processing sectors are viewed as the strongest and most important sectors for the regional economy. The U.S. Export-Import Bank (EXIM) is providing partial financing for reconstruction of the Ryazan Oil Refinery. Wood processing and food processing are among the best investment prospects as regional enterprises lack equipment.

- Yaroslavl Oblast (Population: 1.4million)

East of Moscow, Yaroslavl is a hub of important highways, railroads, inland waterways, and air routes. The oblast is famous for heavy machinery (diesel engines, electrical equipment), refined petroleum, textiles, aviation, synthetic rubber and tires. Yaroslavl is increasing its regional output. Recently, the Yaroslavl Motor Plant, the sole surviving manufacturer of diesel engines in the former Soviet Union, and Rybinsk Motors, producing aircraft engines, showed significant growth. A number of U.S. companies have participated in investment projects in these industry sectors. Oil reserves have been discovered in Yaroslavl Oblast, although significant geologic and economic research needs to be completed before commercial production can be launched.

2. St. Petersburg and Northwest Russia Region

- Northwest Russia, including St. Petersburg, Leningrad Oblast, Archangelsk, Kaliningrad, Karelia, Murmansk, Novgorod, Pskov, and Vologda, covers a vast area comparable in size to Alaska and is home to 13 million people. St. Petersburg, Russia's second largest city and the fourth largest in Europe, boasts a population of approximately 5 million, and is a major commercial, educational, research, industrial, and financial hub. Its factories and shipyards produce everything from heavy machinery and submarines to software and a variety of consumer goods. Northwest Russia's ports and railways comprise a major transportation center, tying Russia to the Baltics, Scandinavia and the rest of Europe. This role should become even more important as the nation develops the "Northern Corridor" of rail lines and port facilities that is planned to offer an alternative to shipping cargo by sea from Asia to Europe. Surrounding the city, Leningrad Oblast contains 1.8 million people in an area comparable to Ireland. Combined, St. Petersburg and Leningrad Oblast form a substantial market for consumer and industrial goods.

- Investment in Northwest Russia: During the last several years, Northwest Russia has attracted a large portion of total U.S. investment in the country, and U.S. companies such as Caterpillar, Coca-Cola, Ford, Gillette, International Paper, Lucent, Otis Elevator, Philip Morris, RJ Reynolds and Wrigley have all established production facilities. Following the 1998 economic downturn, regional authorities were forced to become more competitive, and local and regional governments became more willing to grant tax and other concessions in order to encourage foreign investment. To varying degrees, the regional governments have taken the right steps toward attracting such investment through the creation of foreign investment laws, tax abatements, and the creation of foreign investment advisory councils. Several oblasts have been especially successful at creating commercial environments conducive to investment. St. Petersburg, Leningrad Oblast and Novgorod are the best examples, accounting for over \$1.4 billion in U.S. direct investment.

- U.S. Investment in Northwest Russia

Sector	Value (in \$ millions)
Tobacco	721
Oil and gas	400
Food processing	190
Automotive	150
Equipment Manufacturing	100

Telecommunications	92
Pulp and Paper	65
Consumer Products	40
Food packaging	36
Hotels	29
Research and Development	10
Total	1,833

- With their proximity to European shipping routes, St. Petersburg and Leningrad Oblast comprise a natural transportation hub; in fact, Northwest Russia is the country's leading export region. In 1999, the Northwest Customs Department handled \$12.8 billion in trade, with the U.S. ranked as the number one trade partner (11% of trade turnover to the region). The Port of St. Petersburg is Russia's largest commercial seaport by volume, handling roughly a third of Russia's imports. Commercial seaports are also located in Murmansk, Kaliningrad, and Arkhangelsk, and several additional cargo port projects are currently being developed in Leningrad oblast. Commercial opportunities exist for U.S. firms in modernizing port handling facilities, developing modern freight forwarding systems and constructing cargo-processing terminals in the ports. The St. Petersburg area also has an extensive rail network connecting it to Europe, Moscow and other Russian regions.

-Tourism: According to UNESCO, St. Petersburg is the only Russian city ranked among the world's top 10 cities in "tourism appeal," and its developing tourism infrastructure helped the city attract 3.3 million foreign tourists to Northwest Russia in 1999. Tourism is expected to grow 5-7% annually over the next five years, adding additional demand on the city's hotels and infrastructure. Moreover, St. Petersburg has few mid-range hotels, and is in dire need of international-standard two and three star hotels. The city administration is attempting to cultivate joint ventures with foreign investors and hotel chains and to conclude management contracts with international chains that can invest in hotel renovation.

-Best Prospects in Northwest Russia: In addition to several of the best prospects listed elsewhere in this report, Northwest Russia offers commercial opportunities in other key sectors. The region produces 35% of Russia's output in the forestry and wood working industry (more than any other Russian region), with a majority of production exported to Finland. This production creates demand for U.S. equipment related to logging, wood processing, and pulp and paper production. The domestic food processing, packaging and textile industries are gaining strength and consequently demand is also growing for such equipment. The region's growing tourism market provides opportunities in hotel and restaurant development, as well as products and equipment. As one of Russia's major academic centers, St. Petersburg possesses extensive intellectual resources and is quickly developing into a significant player in offshore software programming. Pollution control equipment and services (especially related to water resources) fill an important niche market, and financing may be available from neighboring Scandinavian countries that are funding environmental programs here.

3. The Urals and Western Siberia Region

The Urals Region and Western Siberia territories cover an area larger than the United States east of the Mississippi River and are home to over 40 million people. They possess some

of Russia's most valuable resources, with minerals, fossil fuels and vast forests. During the Soviet period, the Urals became a leading center of heavy industry (metallurgy and machine building), as well as defense and aerospace plants. Today, those industries remain concentrated in Sverdlovsk, Chelyabinsk, and Perm Oblasts. In Western Siberia, Tyumen Oblast is known for its prolific gas and oil reserves.

In addition to fossil fuels and heavy industry, the telecommunications and food processing industries offer opportunities for U.S. firms. The telecommunications infrastructure around urban centers has developed rapidly over the past five years. Local landline services are concentrating on data communications and digital switching upgrades. Cellular telephone services are now available in most of the region's major cities. Food processing also has been expanding. The region is home to over 6,000 food processing firms, many of which seek imported processing and packaging lines to meet the increasing demand for high quality, competitively priced foodstuffs.

- Sverdlovsk Oblast (Population: 4.6 million)

Sverdlovsk Oblast is one of Russia's most urbanized areas. 87% of the population lives in cities. Its capital, Yekaterinburg (1.6 million inhabitants), is Russia's fourth largest city. Sverdlovsk Oblast has the largest GDP of any oblast in the Urals, producing 5% of Russia's industrial output and ranking second only to Moscow Oblast in that category. Of 89 Russian regions, Sverdlovsk Oblast is one of only nine net contributors to the federal budget. Ferrous metallurgy and machine building form a large portion of Sverdlovsk's economy, much of it defense-related. Services have grown to 40% of regional GDP. Yekaterinburg is a major road and rail hub and also has regular air service to several European cities. Its banking infrastructure is the best in the Urals, with 31 banks and 17 branches of commercial banks from other regions. Sverdlovsk Oblast leads the Urals in attracting investment, and several large U.S. firms have substantial investments here. The United States is the major investor in Sverdlovsk Oblast with 47% of total investments. Sverdlovsk's top exports are steel, copper, chemicals, aluminum, titanium and radioisotopes. According to oblast statistics, 1999 foreign trade was valued at \$2.28 billion. Non-ferrous metallurgy remains a growth sector, and VSMPO, the world's second-largest titanium producer and a supplier to Boeing, is located here.

- Perm Oblast (Population: 3.1 million)

Heavy industry, primarily metallurgy and machine building, constitute a large sector of Perm's economy. Much of this industry is defense-related, including production of aircraft engines, Proton rockets, and space control systems. Perm produces 30% of Russia's paper and 98% of its potassium-based fertilizers. The oblast is also a regional center for electricity generation. The city of Perm, the oblast capital, is a major river port, has two airports and is situated on the Trans-Siberian railway. Perm's top exports are refined oil and petrochemical products, fertilizers and metals. Perm has over 100 known deposits of oil and gas and two oil refineries. Annual extraction exceeds 9 million metric tons of oil and 500 million cubic meters of gas. 59% of Russia's magnesium and most of its titanium ore come from Perm.

- Chelyabinsk Oblast (Population: 3.6 million)

Chelyabinsk Oblast, situated on the Trans-Siberian railway, ranks fifth in Russian industrial output. Ferrous metallurgy and machine building play a key role in the oblast's economy. Metals account for 85% of the oblast's exports and over 40% of total output. The

oblast is rich in iron ore, copper, bauxite and gold. Over 70% of Chelyabinsk Oblast's ferrous metal exports originate from the giant Magnitogorsk Metallurgical Works.

- Tyumen Oblast (Population: 3 million)

Tyumen is Russia's third largest oblast in terms of territory, and includes two autonomous districts, Khanty-Mansiysk and Yamalo-Nenets. Tyumen is rich in oil and gas: its combined output of both exceeds 7% of Russia's GDP (including over 90% of Russia's natural gas and 60% of its oil). Gazprom dominates the gas industry in Yamalo-Nenets, while Lukoil, Yukos, Sibneft and Tyumen Oil Company are the oil leaders in Khanty-Mansiysk. Several U.S. and European firms have established joint ventures in the region for production and sale of crude oil. Southern Tyumen Oblast is predominantly agricultural. Tyumen is an important electric power producer, accounting for 7% of Russia's electricity. It also produces a third of Russia's automobile batteries.

4. Russian Far East Region

Separated from the world market for most of its history, the Russian Far East (RFE) is only today becoming a full participant in international trade. This presents unique opportunities and challenges for the U.S. export community. The RFE market has four time zones, 6.2 million square kilometers (two-thirds the size of the continental United States), a population of 8 million, and ten cities with populations over 100,000.

The August 1998 devaluation of the ruble was the key recent economic event in the rapidly changing resource-based economy of the RFE. The markedly weakened ruble has made many RFE industries newly competitive in world markets. Though the decline of the ruble has been bad news for U.S. food exporters, it has created new opportunities for U.S. equipment exporters as Russian factory managers try to retool aging facilities. Though the regional economy is still very depressed, pockets of recovery are visible in the wood processing, food processing, and fishing sectors.

- Obstacles to Trade and Investment

U.S. companies face considerable obstacles to doing business in the Russian Far East, as in other parts of Russia. Obstacles include:

- a. Unfavorable western media coverage and general lack of awareness of the region
- b. High federal taxes and customs duties and unpredictable local enforcement of tax, customs, immigration, and other regulations
- c. Inadequate infrastructure, including transportation, heat, telecommunications, water, electricity, medical services, and housing
- d. Cultural differences between Russians and Americans

U.S. Business Activity in the Russian Far East

Though overall RFE imports tumbled following the crisis, the U.S. market share increased considerably as U.S. equipment sales to RFE manufacturers increased.

- Table A: U.S. Exports to the Russian Far East (in \$ millions)

	1994	1995	1996	1997	1998	1999
U.S. Exports	227	372	425	470	270	325
World Exports	650	1748	1683	2100	1500	950

U.S. share 34% 21% 25% 22% 18% 34%

Table B: The overall number of U.S. firms active in the market is climbing:

Region	1997	1998	1999	2000
Primorsky	30	36	45	49
Sakhalin	25	26	34	49
Khabarovsk	30	27	35	39
Magadan	5	13	14	12
Kamchatka	5	12	10	12
Amurskaya	-	5	3	3
Yakutsk	-	4	1	1
Total	95	123	142	165

Though U.S. activity in other extractive sectors is substantial, the overshadowing U.S. business interest in the RFE is the projected \$35 billion of investment in Sakhalin's oil and gas projects. The magnitude of these projects is six times the sum of cumulative U.S. investment in Russia; the expected U.S. investment in Sakhalin is larger than sums U.S. companies have invested in many countries.

CHAPTER III: POLITICAL ENVIRONMENT

A. Bilateral Relationship with the United States

The U.S. relationship with Russia has evolved since the break-up of the Soviet Union through numerous summits and Bilateral Commission meetings that have built a substantial agenda for U.S.-Russian cooperation. The last bilateral summit was held in Moscow in June 2000. In addition to resolution of regional crises, such talks have focused on arms control, non-proliferation of weapons of mass destruction and the means for their delivery, counter-terrorism, organized crime, and the environment.

The United States continues to support Russian efforts to build a democratic society and market economy, with the goal of integrating the country more broadly and firmly into the international community. The United States also continues its support to engage international financial institutions with Russia.

B. Major Political Issues Affecting Business Climate

Democratic institutions are fragile in Russia. The March 2000 presidential election was the first democratic transfer of power in Russia's 1,000-year history; the election reassured investors about Russia's political stability. Nevertheless, other legal and juridical factors affect the business environment in Russia. Although Russian law now includes a civil code (which contains a commercial code) and a criminal code, key amendments are needed to improve the business environment.

Protectionist elements in the Russian executive and legislative branches have risen in response to the broad belief that free trade and foreign business activity have caused the nation's industrial decline. Some politicians advocate limits on foreign share holdings or property ownership, or an increased tax burden on foreign businesses. Putin and the Russian government have pledged to improve the business climate and increase legal protection for investment.

C. Political System, Elections, and Orientation of Major Parties

As outlined in the Russian Constitution adopted in December 1993, the Russian Federation is governed by a political system modeled after many in the West. The federal system is composed of three branches: executive, legislative and judicial. The Federation is composed of 89 subjects which include regions, autonomous republics, territories and the cities of Moscow and St. Petersburg. These subjects are granted some authority over internal economic and political issues. Nonetheless, there is considerable ambiguity in the power sharing agreements which the central government has signed and continues to negotiate with many Federation subjects. In May 2000, President Putin issued a decree dividing the country into seven federal districts. This and other initiatives are designed to strengthen the power of the center and to rein in regional leaders, some of whom have become czars in their own realms.

1. Executive Branch: Under the constitution, the executive branch is headed by the president, who is elected for a four-year term and may serve two terms. Vladimir Putin became Acting President when Boris Yeltsin resigned December 31, 1999. He was elected president in March 2000. The President has the power to choose the Prime Minister (currently Mikhail Kasyanov), with the approval of the State Duma (the lower house of the legislature). The president, upon the recommendation of the prime minister, appoints ministers, who are responsible for enforcement of legislation and decrees in their respective fields.

2. Legislative Branch: The legislature consists of a two-chamber Federal Assembly. The lower house, the State Duma, consists of 450 deputies, half elected from single-mandate geographic districts, and half elected on the basis of party lists. The Duma confirms candidates for prime minister, passes federal laws, the federal budget and ratifies treaties. Deputies are elected to four-year terms (most recently in December 1999), although the constitution allows the president to dismiss the Duma and call early elections in rare circumstances. The upper house, the Federation Council, consists of two representatives from each member of the Russian Federation - the head of each regional executive branch and the chairman of its legislature. The Federation Council reviews legislation passed by the State Duma and adopts its own resolutions. In summer 2000, President Putin won approval from both chambers of the Federal Assembly to make changes in Russia's federal structure. These changes will affect the formation of the Federation Council and are widely regarded as giving the Russian president more control over the legislative body. Adopted at the time of this report, the changes have yet to be implemented, though they will be closely monitored and analyzed as they are carried out.

3. Political Parties: Nine factions of deputies are represented in the Duma. Staunch centrist forces, including the "Unity" faction and the "People's Deputy" group, hold the largest bloc of seats and constitute nearly one-third of the Duma. On most issues, pro-government forces hold a majority. Other centrists, such as the "Fatherland - All Russia" faction and the "Russia's Regions" group, control 20% of Duma seats. The Communist Party and allied Agro-Industrial Group hold almost 30% of Duma seats. The "Union of Right Forces" has 7% of Duma seats, while the liberal "Yabloko" faction and the nationalist "Liberal Democratic Party" have just under 5% and 4%, respectively.

CHAPTER IV: MARKETING U.S. PRODUCTS AND SERVICES

U.S. commercial activity has increased dramatically in Russia since the collapse of the Soviet Union. On a cumulative basis, America is the largest foreign investor in Russia. In 1998, Germany was the largest source of foreign portfolio investment (attributable to a single investment in Gazprom), with the U.S. remaining the largest source of foreign direct investment (see Chapter X). In fact, Russia has received relatively little foreign direct investment compared with Central Europe or China. Most firms have decided that early returns are not large enough to compensate for high start-up costs and perceived risks. Many U.S. firms investing in Russia describe their decision as strategic, based on the promise of long-term position rather than short-term sales.

Membership in the American Chamber of Commerce in Russia (AmCham) grew from a few dozen companies in 1994 to roughly 600 by 2000, making it the fastest-growing AmCham in the world. AmCham has chapters in Moscow and St. Petersburg (60 members) and more than a dozen committees. It has worked closely with the U.S. Commercial Service and private sector associations to bring policy issues to the attention of the U.S. and Russian governments. The AmCham works to improve Russia's commercial climate and to inform U.S. companies of often overlooked opportunities in regions beyond Moscow.

A. Selling In Russia

Companies operating in America are accustomed to well-defined distribution channels, relentless competition, and strong advertising budgets. Firms in Russia, though, encounter erratic distribution, unpredictable (but tough) competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of western-style stores in major cities, most distribution - especially outside of Moscow and St. Petersburg - takes place through such informal channels as kiosks and open markets. Utilizing these channels is often a key to success for an American company operating in the Russian market. Those who succeed do so through a combination of improvisation and innovation, combined with a substantial investment of time and a tolerance for early mistakes. U.S. companies with a long-term market development strategy may find regional markets well worth exploring; anecdotal evidence indicates that European products are increasingly unchallenged in Russia's regional markets.

1. Advertising and Promotion Activities

Television, radio, print, and billboard media are ubiquitous in the Russian market. Most major western advertising agencies are active in Russia, and domestic agencies are growing and their professionalism continues to improve. Russian advertising regulations are not well developed, however, and advertising costs have not been tax deductible expenses until now. Pending changes in corporate tax law are expected make advertising expenses deductible up to 5% of total costs beginning in 2001.

2. Print Media

There are abundant opportunities to reach customers through Russia's vigorous print media. The country has a huge number of specialized publications for practically any interest, and Russian-language trade journals offer good marketing venues. Russia also has a large number of popular general interest newspapers and magazines, several of which have national circulation. In Moscow and St. Petersburg, there are high-quality English and German language weekly newspapers which are very effective media to reach the high-income foreign business and government communities.

-Dengi (Money)	(weekly business journal, Russian)
-Itogi (Review)	(weekly journal, Russian)
-Ekspert (Expert)	(weekly journal, Russian)
-Vlast (Power)	(weekly journal, Russian)
-Profil (Profile)	(weekly journal, Russian)
-Kompaniya (Company)	(weekly business journal, Russian)
-Izvestiya (News)	(daily paper, Russian)
-Kommersant	(business daily, Russian)
-Delovoy Mir (Business World)	(business weekly, Russian)
-Vedomosti (Herald)	(business daily, Russian)
-Moscow Times	(daily paper, English)
-Moscow Tribune	(daily paper, English)
-Moscow Business Guide	(monthly classified directory, English)
-Delovoy Peterburg (Business Petersburg)	(business daily, Russian)
-St. Petersburg Times	(twice-weekly newspaper, English)

3. Trade Shows

U.S. firms are strongly encouraged to exhibit at Russian trade shows, because they are important marketing venues, and doing so reassures Russian buyers that the company is committed to maintaining a presence in the domestic market. Companies occasionally make substantial floor sales at these exhibitions. Furthermore, representatives of regional governments and state enterprises from remote areas often visit exhibitions in major cities to purchase goods. A list of major trade exhibitions is found in Chapter XII. The U.S. Commercial Service in Russia often reports on these trade shows and these reports can be found on our websites (see Chap I, Section E).

4. Direct Marketing and E-Commerce

In Russian cities, telemarketing and fax marketing to business customers is common but not effective. By contrast, person-to-person direct marketing works well (e.g., with health and beauty products). Other direct marketing channels (catalogs, e-commerce and regular mail) are still in their infancy. Many shippers are reluctant to send goods without prepayment, especially those who were burned by non-payments during 1998's freeze of the banking system. The number of customers with credit and debit cards is increasing, but card use scarcity remains a key constraint on the growth of catalog orders and e-commerce. Nevertheless, sales through these channels are expected to grow rapidly in coming years because they bypass the relatively high costs of retail distribution.

5. Service, Training and Customer Support

Good after-sales service, training and customer support can be a major competitive advantage for U.S. firms entering the market. Russian manufacturers are known even today for their almost complete lack of attention to post-sale service. For low-cost items, buyers are accustomed to purchasing several units of an item in order to have a supply of spare parts. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may have never used particular products or brands. U.S. firms, able and willing to offer even rudimentary

training and support for products, particularly in remote sites, can prosper. Conversely, companies not willing to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity better facilitates training and service.

B. Selecting Customers And Partners

To succeed in Russia it is important to choose sales targets and partners carefully. Because many domestic firms lack capital and experience poor cash flow, many of them seek potential customers based on their ability to pay. Among the most favorable candidates for sales and cooperation are:

- Russian enterprises exporting for hard currency
- Development projects financed by western sources
- Enterprises with good domestic cash flow
- Regional governments in resource-rich areas
- The federal government
- Major modernization projects by Russian enterprises
- The general consumer market

1. Possible business strategies include:

- Selling U.S. components for use in Russian products
- Using Russian plants for final assembly of U.S. products
- Redesigning U.S. products for domestic production for local markets
- Selling technical expertise to help domestic firms redesign their products
- Purchasing Russian technology by purchasing finished products or acquiring production technology licenses
- Contracting to use Russian defense technology to create U.S. products

2. Selling to the Russian Government

A law on federal procurement, adopted in May 1999, allows foreign firms to participate in public tenders if the product or service is not available from domestic producers or if Russian production is not considered economical. Regional or local authorities are potential customers for U.S. suppliers. For example, the Federal Health Ministry and some of the regional administrations often buy supplies for distribution to hospitals and clinics. While local governments receive sharply reduced federal subsidies, they have the flexibility to make purchase decisions based on local factors and contacts. However, Russia's current fiscal situation limits the role of public-sector customers. The purchasing power of some depressed regions is even worse than that of the federal government's.

3. Agents and Distributors

Both experienced and inexperienced exporters should cultivate personal relationships with agents, proceed gradually, and retain a fall-back position should the relationship sour. Experience reveals one of the riskiest practices: a company representative visits Russia once or twice, selects an agent, grants exclusive representation, and then moves quickly to consignment or credit sales without establishing a payment and performance record.

To succeed, U.S. companies must consider a variety of local and regional distribution alternatives. In some product categories (apparel, packaged foods, and alcoholic beverages), foreign suppliers can choose from a small but growing number of existing Russian distributors.

These agents can assist the foreign supplier by placing its products on store shelves, handling customs and transportation matters, and conducting advertising campaigns. Most recently formed Russian distributors handle small volumes and their experience is limited to Moscow, St. Petersburg or other regional centers.

Some manufacturers of consumer appliances and durables have moved away from using distributors and have replaced agents with their own representation in major cities. They then sell directly to Russian importers, who take possession of goods outside Russia (in Finland, for example) and import for their own account. This affords the manufacturer greater control over prices and distribution, while avoiding potential tax and customs liabilities. This practice further mitigates some uncertainties of the local commercial environment.

Other foreign companies have decided that the reputation of their brands could suffer if they fail to ensure compliance with Russian customs. In fact, some U.S. companies have run into trouble as a result of false invoicing and other irregularities committed by their intermediaries. Firms opting for direct sales will likely face low early returns because of reduced sales resulting from duties and higher landed costs. However, for those determined to build a strong presence in Russia, this policy may be seen as an investment that will ultimately have dividends.

The U.S. Commercial Service (the trade promotion agency of the Department of Commerce) provides assistance to U.S. companies through the Agent/Distributor Service and the Gold and Silver Key Services. Firms should also review the "Search for Partners" program of the Business Information Service for the New Independent States (BISNIS). Contact information is in Chapter XI.

4. Joint Ventures and Licensing

Establishing a joint venture (JV) demands meticulous planning and sustained commitment. One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. Political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will be at an advantage in this industry.

U.S. technology is rarely licensed for Russian production outside the context of a joint venture. Chief hurdles which must be overcome include quality levels attainable by Russian facilities in the absence of significant retooling, uncertain intellectual property protection (especially in the software industry) and difficulty in receiving regular and prompt payments. In the opposite direction, Russian companies generally are eager to license their technologies to foreign companies in exchange for the cash infusion. In 1998, a major American chemical manufacturer signed a \$40 million agreement with a Russian chemical firm to license Russian chemical technology.

JVs are often viewed differently by the Russian and American sides. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner who does not share the same objectives. In most cases, other forms of alliance, in which the U.S. partner retains managerial

control, are preferable. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Recent experience shows that foreign minority shareholders face serious difficulty in protecting their interests in Russian courts, and beyond that in the decidedly poor record of the bailiff system in executing court awards. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares priorities and expectations.

A JV scenario that often leads to commercial failure and, in some cases, bitter legal disputes: A U.S. company forms a JV with a Russian partner after a short history of cooperation. The American firm then returns to the U.S. as an “absentee” partner. The company has the expectation that the Russian partner will manage daily operations, implement a business plan, and wire profits on schedule. This is a recipe for disaster. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of American managerial staff to keep the business on-course, both before and after the venture has achieved commercial success.

C. Establishing A Business

1. Local Attorneys, Accountants and Other Services

While professional services in Russia are expensive, it is perilous to avoid this expense. In Russia’s unsettled commercial environment, early advice on tax and legal issues will ultimately save both aggravation and money. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees and, all too often, these decrees and laws overlap or conflict. Determining tax obligations is a tedious task. Furthermore, Russian accounting practices differ markedly from Western standards. Although the Russian government prioritizes conversion to international accounting standards, the process is far from complete.

Moscow and St. Petersburg have large offices of major western accounting, legal and consulting firms that blend the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or Western management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices at the U.S. Embassy and Consulates General maintain lists of local legal, consultancy, and accountancy firms.

2. Registration Options

The 1991 Law on Foreign Investment and the 1999 Civil Code regulate foreign business registration in Russia. Conducting business without registration is illegal. Although the federal law governing the process is uniform throughout Russia, it is often subject to local interpretation. Russian law offers several commonly used models to conduct business:

- Limited liability corporation (OOO)
- A privately held, closed joint stock company (ZAO)
- Publicly held, opened joint stock company (OAO)
- Representative or branch office of a foreign company
- Registration as an individual private entrepreneur.

3. Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint-stock companies with partial Russian ownership, or as wholly-owned subsidiaries of the foreign firm. Foreign

ownership can be as high as 100%, except in certain sectors. (For example, foreign stakes are restricted to 25% at defense-related enterprises.)

In Russian terminology, branches are not considered independent legal entities, though they can negotiate, market and provide other business support on behalf of firms based outside Russia. However, they can not technically generate a profit on their operations in Russia. Setting up a branch may be worthwhile if a foreign company has started to pursue business in Russia and is exploring opportunities. Many large U.S. firms originally began their Russian operations as locally established branches. U.S. firms should not use the term branch with registration authorities if the purpose is to register as a company.

As are branches, accredited representative offices are not independent legal entities and can not earn profits in Russia. After accreditation is obtained from an appropriate Russian authority, the office should register with the Moscow, St. Petersburg or other local registration chamber. Advantages of an accredited office include annual (rather than monthly) reporting requirement for some activities (including some tax payments), and greater leeway in issuing invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three-year terms. Several Russian government agencies and ministries supervising the industry in which a company operates may require accreditation. Such agencies include the State Registration Chamber, Central Bank, Ministry of Trade, Ministry of Finance, and Chambers of Commerce and Industry of Moscow or of the Russian Federation. Accreditation is more time consuming (two to three months) and expensive than establishing a branch office. Accreditation fees vary from \$1,000-1,500 per year.

4. Companies may be formed by businesses investing over 100,000 rubles (about \$5,000) as charter capital and must register with the State Registration Chamber (SRC), which is under the jurisdiction of the Ministry of Justice. Businesses other than oil and gas companies should also be registered with regional registration chambers (or city chambers, if established in Moscow and St. Petersburg).

5. Registering for Business

The State Registration Chamber also provides accreditation service to representative offices of foreign companies in Russia. The Chamber maintains a state register of companies with foreign investments, and consolidated state registers of representative offices and branches of foreign companies in Russia. Registration with the SRC certifies a company's legal status at the federal level. The Chamber also registers liquidations of businesses having foreign capital. Companies with foreign capital may be established as a joint stock company or a limited liability company. The minimum capital for a limited liability company is 100 minimum monthly wages (about \$400) or 1,000 minimum monthly wages for a company with a Russian partner.

Company registration is a complicated process consisting of two steps. To obtain a temporary registration certificate, a foreign investor should submit required documents and deposit 50% of the authorized charter capital into a Russian bank account. (For the temporary registration to remain valid, the remaining percentage should be received in the company's bank account within a year.) Within 45 days of receiving temporary registration, the investor must:

- Register with the State Registration Chamber
- Obtain industry-reporting codes from the State Statistics Committee
- Obtain an identification number (INN) from the Tax Inspectorate

- Register with the following funds: the Pension Fund, the Employment Fund the Medical - Fund, the Social Insurance Fund, and the Ministry of Antimonopoly Policy.

After these registrations are completed, permanent registration can be granted. While the official registration fee is low (4 minimum monthly wages, about \$14.5), the actual cost will include other expenditures such as document preparation and legal counsel.

The U.S. Commercial Service can provide additional details on registration requirements, but strongly recommends that firms seek professional legal advice when registering in Russia.

Further information is available on the State Registration Chamber website: www.palata.ru

D. Taxation

Russia is in the midst of major tax reform. In August 2000, President Putin signed into force four chapters of the new Russian Federation Tax Code: Value Added Tax, Excise Taxes, Individual Income Tax, and Unified Social Tax. Most of the changes will take effect in January 2001. Further tax changes will be considered in the fall session of the State Duma. The goal of the changes will be to boost tax revenue encouraging honest accounting and investment in the economy. Previously, full compliance with the combined tax burden would have driven most enterprises out of business.

Tax regulations are extensive and complex, and often change on short notice. Compounding this, they are unpredictably interpreted by officials. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to confirm details and stay apprised of developments.

1. Profits Tax: The profit tax is levied on an enterprise's gross profits. Generally, the maximum profits tax rate is 30%, but rate reduction is pending. Many business expenses commonly deductible in western countries are not fully deductible under current Russian law. The tax reform law should increase reliance on the profit tax in lieu of a number of current small taxes on turnover and usage.

2. Value Added Tax (VAT): VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the EU model. VAT is calculated on the sales value and is applied at a general uniform rate of 20%, except for certain foodstuffs and children's clothes, which are taxed at 10%, and certain supplies that are entirely exempt from VAT (certain financial services and pharmaceuticals). Imports are also subject to VAT. The calculation for VAT on imports is based on the customs value of the item plus customs duties and customs fees. If exporters ship before payment is received, they pay no VAT. However, exporters receiving payment before shipment must pay VAT, which is subsequently refundable but often with difficulty.

3. Import Duties: Tariffs are assessed at specified rates, ranging from 15 to 30%. They are also assessed according to classification and are applied to the customs value of the imported goods (including shipping charges and insurance). Goods imported as in-kind contributions by foreign partners to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents under certain conditions.

4. Turnover Tax: This tax is applied to gross sales and the revenue it generates is dedicated to highway maintenance and improvement. The tax has been reduced from 4% to 1%; it is scheduled for elimination.

5. Social Welfare Tax: A payroll tax is assessed on a graduated scale, which starts at 5% and rises to 35%. (The recent tax reform legislation consolidated four previous taxes.)

6. **Sales Tax:** Sales taxes are levied locally; they are calculated on the value of goods or services sold in both retail and wholesale outlets. The taxpayer is obliged to make advance monthly payments which are forecast on the basis of the previous month's sales. Moscow's sales tax is currently 4%. Certain categories of goods and services are exempt.

7. **Withholding on Dividends, Interest and Royalties:** Foreign legal entities without a business presence in Russia are subject to a withholding tax of 6% on freight services rendered in Russia. The rate is 15% on dividends and interest received from Russian enterprises. Finally, the rate rises to 20% on royalties. These rates are often applied according to the relevant double taxation treaty. This is not the case, however, for lease payments and other income, which are subject to the 20% withholding rate.

8. **Land and Property Taxes:** Local authorities may levy a tax on land according to its type and location. The rate is higher in Moscow and St. Petersburg than in other cities and rural areas.

9. **Personal Income Tax:** The personal income tax is now a flat 13%, following the recent tax reform legislation which sharply reduced the former graduated rate. When applied to expatriates, however, there may be some withholding requirements which complicate the issue.

CHAPTER V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENTS

As discussed in Chapter 2, Economic Outlook, the effects of the 1998 economic crisis are moderating and the economic and political climate has turned increasingly favorable for business in Russia. Favorable economic signs include 4% plus economic growth, moderate inflation at 18%, and a large balance of payments surplus. On the policy front, the administration of President Putin has declared its intention to improve the business climate and seek more foreign investment. It has also produced an economic strategy document with its plans. It has delivered the first installments on these commitments by pushing through a portion of a major tax reform plan and maintaining tight fiscal discipline.

Based on these factors, the 2000-2001 period appears to be favorable for a recovery of U.S. exports to near pre-crisis levels and further investment, but the full potential of U.S.-Russian business will not be reached for some time. In the wake of the 1998 economic crisis, U.S. exports fell by half to \$1.85 billion in 1999, and recovered only moderately through last winter. The pace of U.S. investment recovered by the Fall of last year and reached a level of \$2.92 billion, 30% above 1998 and nearly equaling 1997. The United States is just behind Germany as the top international investor country in Russia, and U.S. investment appears to be continuing to rise at a moderate pace. In the agricultural sector, the Russian market for imported food products has declined by more than 80% since the 1998 crisis, the U.S. share of this market still stands at 7.3% (down from 10% in 1998) based on Russian statistics. Because of the limited capability of Russia's agricultural industry to meet the domestic demand for food products, Russia is likely to regain its place as a strong and dynamic market for U.S. agricultural and food exports.

The U.S. Commercial Service (CS) in Russia assisted U.S. companies deal with the effects of the 1998 Russian economic crisis and continues to search for major commercial opportunities which continue to exist in Russia. Its observation is that practically all U.S. companies that established operations or a major trading relationship in Russia have chosen to weather the storm and, indeed, many have implemented investment projects that were put on hold in 1998. On the other hand, fewer new U.S. companies are exploring the Russia market and the number of U.S. companies participating in major trade shows is down sharply. European

companies, on the other hand, appear to be aggressively marketing their goods in Russia, establishing distribution channels, and taking over market share as Russian demand rebounds.

A. Industrial (Nonagricultural) Leading Sectors

The “Leading Sectors” face somewhat mixed prospects in the coming year since some sectors are recovering smartly while others appear to face various obstacles which are likely to limit progress at present. Still other sectors from last year’s list can no longer be considered favorable until fundamental conditions change.

The oil and gas industry, both for export sales and investment, is once more the leading opportunity sector because major investment projects are being implemented and a number of factors are contributing to the sector’s health. A period of high oil prices has strengthened the earnings of Russian companies, which can now finance purchases from present income, and other developments such as reopened Export Credit Agency financing, new export pipelines, advancing PSA legislation, and improving corporate governance appear to be creating a broader base for expansion.

Telecommunications is Russia’s second best sales and investment prospect as Russia moves to catch up in this key infrastructure area. Improved financial health of domestic companies, aided by regulatory relief on rates, and the activity of some dynamic foreign investment are accelerating development of the industry. Moreover, selected higher tech areas of the Internet, e-commerce and off-shore programming show signs of launching exponential growth off a low base.

Other “Leading Sectors” are likely to generate substantial sales, but their growth may be only a slow recovery to pre-crisis levels. This may apply to such areas as mining and construction equipment, automotive equipment and parts, aircraft & aerospace, and food processing equipment. These areas are affected by financing limitations imposed by U.S. Exim Bank and other export credit agencies and, in some cases, are also blocked by government imposed barriers. Finally, in consumer goods sectors - although some companies are doing well - U.S. companies are facing particular difficulties because personal consumer buying power remains very low (an average earnings of \$89/month), and competition is stiff from European and domestic sources. Under such circumstances, U.S. firms are finding it difficult to enter the market or increase sales in such areas as beauty products, pharmaceuticals and appliances.

Given continued reform and growth, Russia could become a major market for U.S. industrial equipment, components and engineering services to modernize its industry and reach its full agricultural potential. However, major sales will not be possible until Russia restructures its financial system, reestablishes its international credit, and reorganizes its industry into solvent customers or investment opportunities. In the short term, industries such as aluminum, steel, transportation equipment, food products and forestry products seem to have sufficient cash flow and organization to be leading sectors for trade or investment.

In future years, there may be almost unlimited demand for U.S. equipment in other sectors where it is particularly competitive and adapted to Russian needs, but until structural and financing problems are solved, they have been dropped from the list of Leading Sectors. Electric power equipment was believed to offer such possibilities but the industry remains financially crippled until such issues as pricing, payment arrears, and corporate organization are settled. Agricultural equipment is potentially a multi-billion dollar market, because the Russian agricultural equipment fleet has sunk to less than half of its previous level and U.S. equipment offers the promise of major productivity gains in Russian conditions. However, little equipment

will be sold until a way is found to extend credit to Russia's bankrupt farm organizations and U.S. Exim Bank will guarantee the transactions.

Ultimately, the selection and ranking of these leading sectors was based on the judgment of the U.S. Commercial Service and the Foreign Agricultural Service that these areas offer significant commercial opportunities in the coming year. The figures cited in the sector reports below include future estimates based on staff estimates. Data on the level of trade are likely to understate the value of many imports in the total market and the value of U.S. imports in particular. Many of these sectors can not be reliably separated from broad customs reporting categories. U.S. import values are often deflated by their inclusion in non-cash barter transactions (decreasingly at present), misclassification to evade taxation, or classification as European goods because they were shipped from overseas warehouses or distributorships. Moreover, the trade statistics are unlikely to reflect the U.S. value of U.S. brand products being assembled in Russia by U.S. companies.

1. Oil And Gas Equipment And Services (OGM, OGS)

Oil and gas field machinery, production and exploration services, and pipeline engineering are expected to continue in first place among U.S. exports to Russia. A series of favorable developments are combining to significantly raise the level of annual investment in the industry to nearly \$3.0 billion, which could double the 1999 level of U.S. exports in coming years. High crude oil prices have increased Russia's oil industry revenues by 130%, enabling Russian companies to increase investment from current earnings. Increased financial market confidence in the industry is also enabling Russian companies to raise money through public offerings. Moreover, public trade finance and development agencies are giving showing sign of resuming significant lending to the sector, as evidenced by U.S. Exim Bank's \$500 million loan to the Tyumen Oil Company and EBRD's \$250 million loan to Gazprom. In addition, expenditures for pipeline building are likely to expand as a number of other pipeline projects are either underway or in planning, some of which will be financed by a Russian tax on oil exporters.

These developments are apart from the as yet unrealized flow of investment into major new projects planned by Western oil companies. Although the companies have spent a billion dollars to begin the Sakhalin projects in the Far East, most of the planned developments remain on hold as companies await continue to await Russian actions needed to implement Production Sharing Agreements (PSAs), which the oil companies are demanding before making major investments. The companies are also concerned about guaranteed access to export pipelines as well. There is some hope for accelerated progress this year as the Putin administration has expressed its support for pushing forward with PSAs and a coalition is lobbying in the legislature for needed action. Meanwhile, relief may be on the way for Russia's long shortage of oil and gas export capacity as numerous pipeline projects either underway or in planning, which should give companies further confidence to invest in production. Some of these include the Caspian Pipeline Consortium (CPC) project across southern Russia, Transneft's plans for a Baltic Pipeline System, Lukoil's private line to the Pechora Sea, and Gazprom's plan for a gas route beneath the Black Sea to Turkey.

The best prospects for U.S. equipment and services continue to be rehabilitation/reconditioning equipment/services, horizontal drilling equipment, work-over, maintenance and reconditioning services and equipment for idle wells.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	1,220	1,540	1,610
B. Total Local Production	870	900	940
C. Total Exports	120	168	180
D. Total Imports	470	639	670
E. Total Imports from U.S.	270	190	300

HS categories 381510, 382490, 7304291055, 7304296000, 7304216000, 7304213000, 7304295000, 7304293055, 8413500010, 8413600050, 841370, 8425, 843040, 8431, 843143, 843149) Note: The above figures are based on Russian Customs and U.S. Department of Commerce data and unofficial estimates. The above table does not include data on oil and gas transportation equipment procurement.

2. Telecommunication Equipment And Services (TEL, TES)

Telecommunications is one of the most dynamic sectors of the Russian economy in which consumer demand is high, significant projects are underway and foreign investment is beginning to flow. Upgrades of the existing outmoded and inadequate Russian infrastructure will cost \$2 billion in the next few years and still more investment will be needed to provide advanced services such as cellular and satellite wireless services and broadband connection. As a consequence of these opportunities, U.S. and Russian telecommunication companies have successfully raised several hundred million dollars in equity offerings for investment in the last two years. These developments also represent major U.S. export opportunities since about 60% of telecommunications equipment used in Russia is imported. There is stiff competition, however, with other foreign providers and the Russian government is pressuring international companies to bring production to Russia.

Russia has a huge need for expanded telephone service and strong consumer demand. It has only 21 lines per 100 people, and seven million people are on the waiting list for basic services. Service expanded steadily last year: companies brought basic service to 1.5 million new customers and added 354,000 mobile phone subscribers. Major work to improve the infrastructure is also proceeding - companies laid 3,856 kilometers of frame relay and 11,948 kilometers of cable transmission lines and digitized 29% of city networks.

The Russian telecommunications industry is an increasingly privatized and competitive structure. Basic services are provided by 90 provincial phone companies, which have been partially privatized under the umbrella of the state holding company, Svyazinvest, which allocates capital and supervise investment decisions among the local companies. It is one quarter investor-owned and sale of a second quarter interest is anticipated when market conditions permit. Rostelecom, another partially owned state company, is the original long distance carrier for the local companies. These companies are struggling under regulated low rates and mandated social duties, but they are gradually gaining strength and attracting international investors. New forces include alternative long distance carriers, created by other national monopoly systems, which are wiring networks along their own right of ways. These include Transtelecom (a Ministry of Railways venture), Gaz-Svyaz (Gazprom subsidiary) and the UES electric power network.

The strongest new force consists of the alternative operators, which are mostly joint ventures led by international phone companies. These alternative operators focus on high return services, including data transmission, international and domestic long-distance calls, wireless,

and the Internet. Last year, their revenue grew more than six times to \$2.4 billion, about a half of the industry \$4.1 billion in revenue. They control 95% of the wireless market, 80% of the data transmission, and 20% of local and long-distance telephony, but they face pressure on revenues from increasingly tight competition among themselves.

Best sales prospects for U.S. companies include equipment for high-speed broadband Internet access, voice over Internet telephony, multimedia services, including video-conferencing, and wireless services, including wireless Internet access.

(in UDS million)	1998 actual	1999 actual	2000 estimate
A. Total Market	not known	not known	not known
B. Total Local Production	not known	not known	not known
C. Total Exports	96	247	290
D. Total Imports	1,200	1,275	1,320
E. Total Imports from U.S.	290	202	220

The above figures are based on the Russian Customs statistics and may be an underestimate of U.S. imports. Due to their corporate structure some U.S. equipment manufacturers ship product from their European warehouses. Russian Customs may attribute such shipments to Europe rather than the United States despite the U.S. origin of the product.

3. Aircraft Equipment And Services (AIR, APG)

Russian aerospace companies are in financial straits due to reductions in state funding, contraction of the domestic market and the 1998 economic crisis. The aircraft industry consists of 336 design bureaus, plants and research facilities including 10 major aircraft designers and over 20 major manufacturing facilities, which are involved in military and civil production. There is a rich heritage of the design and construction of both commercial aviation and space products, and continuing capability to produce airplanes and rockets. At the same time, the industry needs restructuring, beginning with consolidation of design bureaus and production plants.

Over the long run, Russia's market presents significant opportunities for U.S. aerospace trade and investment. Russian aviation companies are leasing advanced U.S. commercial aircraft and U.S. aircraft makers (such as Boeing, United Technologies, General Electric, Lockheed Martin, and Raytheon) are engaged in joint production projects and component supply. Significant airport and air traffic control projects are also under development.

Investments and cooperative projects with U.S. companies will provide production funds, allowing the companies to sell newly designed aircraft in domestic and international markets. However, limiting this potential is a 1998 law that restricts foreign ownership in aerospace companies to 25%. Additionally, the industry suffers from a lack of finance for aircraft construction. The solution could be found in developing leasing mechanisms and establishing leasing companies.

In 1999, Russia had just over 7,000 registered civil aircraft, which is adequate for current needs. However, most of the aircraft are old and do not comply with international standards; the majority of the fleet needs to be replaced. To satisfy internal demand, the Russian aviation industry must produce and/or import approximately 40-43 aircraft annually. This figure is cited in a new federal program being considered to develop the domestic aviation industry.

Large purchases of imported commercial aircraft by Russian airlines are currently blocked by tariff barriers and lack of financing. A 20-30% tariff makes importing aircraft prohibitive unless a waiver is granted. A government decree, "On Additional Measures for State Support of Russian Civil Aviation," links the granting of tariff waivers for the purchase of foreign aircraft by Russian airlines to increasing purchases of Russian aircraft in the future.

Best prospects for U.S. firms include exports of components for engines and avionics to Russian manufacturers. These components will enable Russian producers to bring their products up to world standards. Many U.S. companies are working with Russian partners on joint projects ranging from supply of fasteners and avionics to joint production of jet engines. A federal program on upgrading major airports offers commercial opportunities to U.S. firms, especially in the field of construction and airport security.

Expenditures (in \$millions) for aircraft (only) by Russian companies:

	1998	1999
A. Total Market	380	450
B. New aircraft (Russian made)	60	70
C. Imports of used Soviet-made aircraft from third countries and former Soviet Republics	80	100
D. Leasing	240	280

Source: "Analyses of the Russian Aviation Market" published by the State Institute of Civil Aviation.

4. Mining And Construction Equipment (CON, MIN)

Although heavy equipment sales have fallen sharply last because of economic contraction and a decline in investment, the industry remains one of the largest areas of U.S. exports to Russia. Strong growth should eventually occur in this sector.

- Mining Equipment

Purchases of mining equipment fell by half and imports fell by two-thirds from 1998 to 1999 as the economic crisis impacted the mining industry. Western investment is key to improve the profitability of Russian coal mines. Vast opportunities exist in extraction of Russia's ore, diamond and precious metals. There are good opportunities for long-wall equipment, drag-line buckets, and conveyor loaders for open-pit as well as applications in coal and metal mining.

Mining Equipment (in \$ millions)

	1998 actual	1999 actual
A. Total Market	not known	not known
B. Total Local Production	not known	not known
C. Total Exports	89	95
D. Total Imports	450	220
E. Total Imports from U.S.	190	67

Source: Russian Customs, U.S. Department of Commerce, and unofficial estimates.

- Construction Equipment

Overall, the effect of the 1998 economic crisis continues. In 1999, imports of construction equipment fell by almost 60% as ruble prices rose 55% compared to 1997. Conversely, the crisis has stimulated sales of domestic construction equipment; Russia has registered a 5% increase in equipment exports. Nevertheless, the export potential of Russian

construction equipment remains extremely low. It is likely that Russia will turn to establishing joint ventures with Western manufacturers in order to acquire new technologies and management practices. This could provide significant opportunities for U.S. manufacturers of construction equipment. For now, Scandinavian, German and Turkish companies dominate the Russian construction equipment and service market.

Construction Equipment (in \$ millions):

	1998 actual	1999 actual
A. Total Market	not known	not known
B. Total Local Production	not known	not known
C. Total Exports	137.6	143.1
D. Total Imports	415.2	176.6
E. Total Imports from U.S.	147.2	47.6

Source: Russian Customs, U.S. Department of Commerce, and unofficial estimates.

5. Medical Equipment And Pharmaceuticals (MED, DRG, DNT)

The economic crisis sharply reduced the Russian pharmaceutical market in 1999. According to industry specialists, the market amounted to \$1.8 billion in 1999 compared to \$3.1 billion in 1997. The market is expected to recover fully from the crisis in 2004-2005. The initial source of market growth will be locally produced generics. Long-term market growth will result from imports or local production of foreign pharmaceuticals. Russia's imports in 1999 amounted \$900 million, 50% of the total market. 60% of all imports entered Russia from Western Europe, the United States, Canada, and Japan. Eastern Europe delivered 24% of imports. Countries of the Commonwealth of Independent States (CIS) delivered 2% of Russia's imports while all other countries accounted for 14%. Russia also imported over \$100 million in ingredients, primarily from China and India, for domestic production. Imports of the top 10 wholesalers increased from 33% in 1997 to 42% in 1999. U.S. manufacturers such as Pfizer, Eli Lilly, SmithKline Beecham, Shering-Plough, and Wyeth-Lederle remain major exporters to Russia. Best prospects for U.S. exports include cardiovascular drugs, hormonal drugs, insulin, antibiotics, analgesics, vitamins, and psychotropic drugs. Finally, it is worth noting that the crisis consolidated the distribution sector. The number of distributors dropped from 3,700 in 1997 to 2,000 in 1999.

Imports dominate the Russian medical equipment market. In 1998, local production supplied about one third of the total market; that figure will increase only slightly in the coming two years. Financing is a major problem for the majority of medical equipment companies working in Russia. Previously, regional governments increased their purchases of large and expensive equipment to modernize local hospitals. In 1999, with the reduction of both federal and local healthcare budgets, the regional governments drastically reduced such procurements. However, hospitals continue to buy small devices and supplies in significant quantities. World Bank and U.S. Exim loans finance many major hospital modernization projects. Subsectors such as dental equipment and supplies depend on imports as local production covers only 20% of demand. The most promising sectors for U.S. companies include clinical laboratory equipment and test kits, dental equipment and supplies, radiology, diagnostic, sterilization, ultrasound and home health care equipment.

Pharmaceuticals (in \$millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	2,555	1,800	1,900
B. Total Local Production	1,270	970	1,000
C. Total Exports	65	70	80

D. Total Imports	1,350	900	920
E. Total Imports from the U.S	32	26	30

Medical Equipment (in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	not known	not known	not known
B. Total Local Production	not known	not known	not known
C. Total Exports	30	42	45
D. Total Imports	787	980	1,040
E. Total Imports from the U.S	100	170	190

6. Metallurgical And Metal Working Equipment (MTL, PCI)

The ferrous/non-ferrous metallurgical and metalworking industries are strong producers and major players in world markets. These industries have hard currency funds to maintain and upgrade their equipment and may be able to mount larger scale investment from international sources. Most plants need to replace a huge portion of their outdated production equipment by adding modern electric and oxygen steel production equipment, continuous casting, metal forming, and process control and environmental technological systems. Metal processing and metalworking, particularly in the non-ferrous subsector, offer additional opportunities for U.S. engineering firms and equipment suppliers. Although Russia's economic crisis and the U.S. anti-dumping case against Russian steel makers have impacted the industry, the more successful plants are continuing short and middle-term modernization programs using export revenues. Considering 1998-1999 statistics, the following equipment categories have the most potential for U.S. manufacturers: casting machines, converters, ladles, ingot molds (8454, 8454.30, 8454.90), hot and cold-rolling mills (8455), numerically controlled hydraulic presses, shearing, forging, and other metal forming equipment (8462, 8462.21, 8466).

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	940	1,010	1,050
B. Total Local Production	330	350	370
C. Total Exports	207	180	220
D. Total Imports	610	660	680
E. Total Imports from the U.S	70	44	50

Source: Russian Customs, U.S. Department of Commerce, and unofficial estimates.
(HS categories 8454, 8454.30, 8454.90, 8455, 8455.30, 8456, 8457, 8458, 8459, 8460, 8460.21, 8462, 8462.10, 8462.21, 8462.41, 8462.99, 8463, 8466)

7. Computers And Peripherals, Business Equipment (CPT, CSF, BUS)

The information technology (IT) market in Russia has reached some degree of maturity. U.S. leaders in this sector are strongly represented in Russia and their products are available directly or through distributors. The IT market in 1999 declined 9% from \$2.1 billion in 1998. Trends in the past year included sales growth of ERP systems, regrouping of PC assemblers and doubling of Internet users.

The Russian IT market shows signs of converging with world patterns. For the first time, sales growth of software and services surpassed hardware sales. After the 1998 financial crisis the volume of PC sales dropped but sales of software products remained stable and in 1999 the

sales of ERP programs increased by 25% (up to 44 million dollars). Annual sales in the Russian software market in 1999 were \$560-580 million. PCs dominate computer hardware sales. Nearly 1.1 million PCs were sold in Russia in 1999, an increase of 11% compared to 1998. The United States is the main source of hardware imports followed by Germany. In market development, U.S. hardware producers face considerable competition from local companies. Locally assembled PCs and locally produced brand-name imitations still dominate the market. However, each producer's market share is below 15% while Hewlett Packard and Compaq are in the top 5% of hardware sales.

Strengthening industrial growth should spur demand this year. The biggest buyers of ERP product and new IT technologies are oil and gas companies, metallurgical plants and automotive companies. Internet penetration is low in Russia but it is poised to grow rapidly and will create new opportunities for U.S. exporters. Currently, there are 2.5 million Internet users in Russia (3% of the population) and industry experts predict six million by the end of 2001.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market (PC)	1,500	1,000	1,200
B. Total Local Production	NA	940	1,139
C. Total Exports	NA	60	61
D. Total Imports	NA	145	147
E. Total Imports from the U.S	33	30	32

Source: Russian Customs, IDC-Russia and Dataquest analysis, industry publications and U.S. Commercial Service estimates.

8. Automotive Assembly, Parts, And Aftermarket (AUT, APS)

In the last few years, the Russian automotive market has grown at an annual rate of 5-7%. This market offers some opportunities for new car sales, but these are limited by low purchasing power and tariff barriers. The market for new car components and aftermarket replacement parts is likely to become stronger as car ownership steadily increases and customers demand higher performance from domestically produced cars.

Russia represents a very large potential market for the U.S. automotive industry because car ownership is only one sixth of the U.S. ratio. Approximately 25 million vehicles are on Russian roads, including 20 million cars, 40% of which are 10 years or older. In 1999, the Russian car ownership rate grew to 130 vehicles per 1,000 inhabitants, more than double the 1993 rate of 59 cars per 1,000 people, but far below the U.S. rate of 750. The total market for cars in Russia has grown from 800,000 vehicles sold in 1992 to 1,700,000 in 1999. The imported car fleet in Russia has increased from 594,000 in 1993 to 2,146,000 in 1997 and the car import market increased from almost zero in 1990 to more than 700,000 vehicles in 1999. Truck and bus sales have been growing even faster at a 20% annual rate during the last three years.

The Russian auto industry represents a major force in the domestic economy because of highly competitive pricing, but its quality must improve to hold its position. Russian vehicle assembly and component manufacturing factories remain plagued by ineffective management, lack of capital for modernization, barter sales and underdeveloped distribution systems. Although far behind Japanese, Western European and U.S. standards in design, performance and durability, the automotive sector of Russia's economy is in better shape than many other industries.

The best opportunities for U.S. firms are in supplying components to several projects underway for assembling foreign vehicle models in Russia. Another good prospect is to supply Russian manufacturers seeking production improvements. Opportunities also exist in licensing and transferring modern technology to Russian component manufacturers. Aftermarket sales of replacement parts and accessories are dynamic, with customer receptivity to U.S. products. Many U.S. brand names are very well known and sold in Russia. Some of the “Made in the USA” products, which Russian motorists seem to favor are: lubricants, automotive chemicals and off-road accessories. There are no known trade barriers affecting imports of U.S. automotive products; tariffs for imported components are a relatively low 5%.

Local production of cars, trucks and buses:

	1998 units	1999 units
Passenger Cars	861,840	961,520
Trucks/Light Commercial	158,761	192,735
Buses and minivans	47,250	50,241

Source: ASM Holding and local media reports.

Sales of motor vehicles in Russia (1000's of units)

	1997 actual	2000 estimate	2005 estimate
Cars	948.0	1,700	2,000
Trucks	149.0	180	250
Buses	45.5	55	65
Total	1,178.5	1,825	2,315

Source: ASM Holding and local media reports.

9. Electronic Commerce/Internet

Russian businesses are rapidly developing electronic commerce in order to capitalize on its benefits. Major international and Russian companies have spent \$50 million acquiring Internet start-ups, the leader being U.S.-owned Golden Telecom. Online retail sales in 1999 were estimated at one to three million dollars, and business-to-business sales totaled 90 million dollars. These numbers will grow exponentially in the next few years - the number of Russian companies using Internet business models grew 80% in 1999. Russia currently has 500-700 online stores. The number of Russian-language servers is approaching 80,000; about 200 new Russian web pages are published daily. However, electronic commerce remains out of reach for many.

The number of people estimated to have Internet varies from 2.5 to 6 million people, a maximum of 4.5% of Russian population. This number may reach 15 million users, or 10% of the population, in 2003, which will make electronic commerce economically viable. Other limitations to development include low consumer purchasing power, insufficient delivery systems, few payment methods, and low computer saturation. Companies are focusing on business-to-business electronic commerce as it provides faster returns. Sibneft, Transneft and the Railways Ministry all plan to establish an electronic commodity exchange for oil, petroleum products, electricity, and natural gas. Another oil producer Surgutneftegas is planning to build a site for corporate purchases. Orel Regional Administration announced that it would launch MTS Zerno, an interregional electronic grain exchange.

The Russian government has adopted a restrained posture on Internet regulation. Business leaders have urged the government to go slow during the developmental phase of the industry. The Ministry of Communications is drafting a law on electronic signature as part of a federal electronic commerce development program for 2001-2006. The program targets the development of a regulatory framework and infrastructure for online transactions.

Consulting companies and investment banks concur that electronic commerce in Russia has the potential to develop in the next few years. The best sales prospects for U.S. companies in electronic commerce in Russia include business-to-business applications, especially providing relatively inexpensive e-commerce solutions for medium-size companies. Development of Internet portals is also needed to meet the rapidly expanding demand, but the market may be difficult to enter for new portal operators. Having a well-established Russian entity may open additional opportunities, such as e-government solutions and development of content services.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
Total Market	160	293	450

10. Food Processing Equipment (FPP, PRG)

The food industry is one of a few industries which show strong growth, as domestic industry filled the gap caused by a sharp decline in imported food products. The packaging equipment market is valued at \$500 million per year and offers significant potential for improvement. Imported equipment has a large market share (about \$450 million), but U.S. companies have only about 15% of that. Companies from Germany, Holland, and Italy dominate the food processing and packaging equipment market in Russia. Some Russian equipment distributors note that they have returned to pre-crisis sales levels of imported equipment. With proper financing and more aggressive marketing, U.S. companies could significantly increase their presence in Russia. Best prospects include milling, refining, extracting, and canning equipment, and machinery and equipment to produce baby food, dairy and meat products, frozen foods, soft drinks and beer.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	698	502	608
B. Total Local Production	93	100	110
C. Total Exports	45	48	52
D. Total Imports	650	450	550
E. Total Imports from the U.S	39	7	14

Source: Goskomstat; statistics for 2000 are unofficial estimates.

11. Wood Processing Equipment

The Russian market for wood processing and pulp and paper machinery is beginning to produce a strong demand for pulp and paper production machinery, sawmills, dry kilns, furniture production equipment, and various types of woodworking machinery. Russia possesses 21% of the world's timber resources, with 1,200 billion forested acres and a volume of 33,600 billion board feet. After the crisis, raw timber exports became very profitable. In 1999, timber exports amounted to \$3.3 billion dollars, up 10% compared to \$3.0 billion in 1998. According to industry sources, Russian can easily triple its logging volume.

In addition, Russian forest companies are interested in developing domestic wood processing to maximize their profits. Some foreign companies moved to the Russian timber market to process timber locally and to produce high-quality timber products for export and local consumption. They are heavily investing in the wood processing and pulp and paper combines. Newsprint and pulp are exportable products producing a guaranteed return on investment. For example, International Paper invested \$35 million in a world-class paper production line at the Svetogorsk Paper plant located in the Russian Northwest. Many Russian pulp and paper producers import foreign machinery to overhaul their production facilities.

A construction boom spurred demand for quality wooden construction materials and products for furniture production. The quality and efficiency of Russian-made wood processing machinery is relatively low and domestic wood processing companies are looking for high-quality foreign machinery. Small companies producing furniture, lumber and other wooden construction products do not have sufficient capital to purchase expensive machinery. Instead, they look for used machinery without complicated electronic control systems and not requiring special service and maintenance. Hence, there is a promising market for used equipment. The official data below does not adequately reflect current or potential activity in used equipment because it is submerged in other statistical categories.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Market	94	98	102
B. Total Local Production	9	10	11
C. Total Exports	7	8	9
D. Total Imports	92	96	100
E. Total Imports from the U.S	3	9	12

Source: State Customs Statistics.

B. Agricultural Leading Sectors

The Russian market is likely to resume a high level of agricultural and food imports, because Russia's agricultural industry is unable to meet the demand for food products, particularly in the processing sector. Since the sharp declines after the 1998 crisis, there have been strong indications that Russia will regain its place as a strong and dynamic market for U.S. agricultural and food exports when the economy recovers. In the short term, products offering the greatest potential include poultry, frozen and processed red meats primarily for processing, fresh fruit (apples), fish and sea food items, and pet foods. In addition, it is also expected that, with market development and promotion built upon the recent U.S. food aid program in Russia, the following bulk and intermediate agricultural products have good export potential: wheat, wheat flour, soybeans, soybean meal and cake, animal feed corn, and planting seeds.

European companies remain the strongest competitors for U.S. firms although a small number of Russian manufacturers and distributors are now becoming more competitive with quality, well-packaged, low cost products. These diversified Russian food and beverage companies are selling products that compare favorably to those from the United States and Europe. In many cases, these companies import raw or semi-processed ingredients due to better quality and reliability. In a few cases, Russian companies have products manufactured and labeled abroad. Prior to the food aid program, the market for U.S. bulk and intermediate commodities declined substantially for several years. However, strong regional demand,

particularly in the Russian Far East, will continue to bolster exports of a few of these commodities.

Despite the current unsettled Russian market, innovative and entrepreneurial U.S. exporters can increase exports with less foreign competition. Financial and credit considerations are of paramount importance. Also a U.S. firm must carefully assess the capability of the Russian importer to purchase and distribute product. Due diligence will take on added significance as U.S. exporters seek to resume trade and commercial relations with their Russian counterparts.

AgMoscow, a consulting firm based in Moscow, believes that consumer oriented products offering the best prospects for the Russian market are: poultry, beef, pork, fresh fruit (apples), fish and seafood items, and pet foods. AgMoscow also expects that subsequent to market development and promotion built on the food aid program, the following bulk and intermediate agricultural products have good export potential: wheat, wheat flour, soybeans, soybean meal and cake, animal feed corn, and planting seeds.

1. Poultry

U.S. poultry accounts for almost 80% of Russia's poultry imports. About 85% of all U.S. poultry products previously arrived through the Baltic ports of Kaliningrad, Klaipeda, Tallinn, and Riga. However, recent customs regulations require that U.S. poultry exports enter Russia via seaports. This has directed poultry imports to the port of St. Petersburg. Trade is currently around 60% of its pre-crisis level. This is better than expected, given the current reduction in consumer spending. U.S. poultry held the major share of the import market at 78% until the economic crisis which negatively impacted the growth rate which U.S. exporters had enjoyed in recent years. Most significantly, the economic crisis has reduced consumer spending, putting priced imports at a disadvantage. Furthermore, the crisis has also strengthened the domestic poultry industry, whose growth will slightly reduce the U.S. share of the market. Given the obvious potential for a loss of U.S. market share, AgMoscow believes that ongoing advertising campaigns and other promotional activities can reduce the likelihood that U.S. poultry imports will lose their dominance. AgMoscow projects a 25% increase in poultry exports in FY2000, but recent governmental actions to restrict Baltic trade may seriously restrict U.S. imports, and give an unfair advantage to EU poultry exporters.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	1,300	860	940
B. Total Local Production	640	720	700
C. Total Exports	3.4	2	2
D. Total Imports	723	240	240.6
E. Total Imports from the U.S	693	68.9	193.6

Source: Russian Customs, U.S. Department of Agriculture data, and unofficial estimates.

2. Beef

Currently, the U.S. share of the Russian beef market is negligible. Ongoing EU subsidies and the lack of credit facilities such as GSM 102 or supplier credit programs have placed U.S. exporters at a serious disadvantage. The percentage of U.S. imports of processed meat products grew steadily between 1994-1998. However, niche market opportunities such as high quality beef cuts and variety meats still exist. During the next five years, Russia will continue to depend on significant amounts of imported meat because of declining domestic meat production and low

stocks. The high quality image that U.S. beef enjoys provides a unique opportunity for U.S. exporters to increase market share. AgMoscow believes that strategic marketing will recover lost market share in 2000, and that long term growth of U.S. exports will continue. With increased awareness between U.S. exporters and Russian importers, U.S. market could experience 10% annual growth by 2004.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	2,400	2,300	2,400
B. Total Local Production	2,090	1,780	1,500
C. Total Exports	5	1	1
D. Total Imports	410	455	500
E. Total Imports from the U.S	7	5.4	4.7

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates.

3. Pork

In 1999, U.S. pork exports were almost halted as a result of EU subsidies. Importers of U.S. pork products are expecting that EU subsidies will soon be eliminated, and U.S. pork will once again become competitive in the marketplace. The combination of the economic crisis, lower consumer spending, and measures taken by the Russian government will encourage domestic processing. Thus, the greatest export opportunities in 2000 will consist of unprocessed and semi-processed items. Russia's largest meat processors are based in Moscow and St. Petersburg, producing 60 varieties of sausage. Fresh pork sales will be targeted to retail stores, restaurants, hotels, and other food service providers in major cities and regions where incomes are high and where there is greater market diversification.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	1,800	900	1,100
B. Total Local Production	1,510	720	560
C. Total Exports	1	0.5	1
D. Total Imports	300	327	480
E. Total Imports from the U.S	60	42	35

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates.

4. Seafood

Russia's seafood imports offer unique opportunities for U.S. exporters. Despite poorer consumers in Russia, there are indications that trade has shifted to more processed, more expensive seafood products. For instance, sales of canned salmon grew from \$49,000 to over \$2 million, while imported roe and urchin expanded from about \$9,000 to over \$2.2 million. Despite lower consumer spending in Russia, expensive fish items have been marketed to hotels, restaurants, and supermarkets targeting foreigners and wealthy Russians who can afford these items. When normal trade resumes, there will be significant opportunities in a variety of processed seafood including canned, pickled, bottled or smoked items. There may be additional opportunity for U.S. exporters offering low to medium-priced products. Canned products are especially popular in Russia as they provide longer shelf-life and are easier to handle and store. Scandinavian and French seafood continue to dominate the market with a wide and interesting assortment of products and aggressive marketing. However, U.S. exporters will experience some short term difficulty from cheap imports from nearby countries.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
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A. Total Consumption	3,100	2,500	2,900
B. Total Local Production	3,200	2,900	3,100
C. Total Exports	286	239	240
D. Total Imports	205	96	120
E. Total Imports from the U.S	16	17.4	16.7

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates.

5. Pet Food

The value of U.S. pet food exports to Russia grew impressively during the last five years, from less than \$10,000 in 1993 to a record \$1.7 million by the end of 1998. The 1999 total Russian market for imported pet food fell to \$450 million, but is expected to grow at a 10% annual rate as the Russian economy recovers. Most pet foods are imported from Germany, with the United States holding a 10% market share. Although the value of U.S. exports is currently small, this number can grow significantly as the Russian market stabilizes. In large cities, one in four families has a dog or cat and purchases dry pet foods. Most of the pet foods are sold at specialty shops or kiosks. In addition, the market can accommodate both high end and low end products. U.S. branded pet food products have an excellent reputation in the Russian marketplace. With market development and better communications to pet food exporters and importers, U.S. exports can recover and expand market share. Accordingly, U.S. exports are expected to grow faster (10%) than the overall import market.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	193	124	112
B. Total Local Production	56	38	34
C. Total Exports	12	6	5.6
D. Total Imports	162	62	74.8
E. Total Imports from the U.S	1.6	0.5	0.3

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates.

6. Wheat

Rising demand in the Russian Far East along with falling Russian harvests will increase demand for imported wheat. This demand will be particularly strong in the grain deficient regions of Siberia, the Far North, and Far East. Although many of these regions are short of cash, favorable terms and pricing should allow U.S. products to move into the Russian market. In addition, U.S. concessional shipments could be an excellent opportunity to initiate increased promotional efforts and targeted educational initiatives. Especially useful are efforts to increase familiarity with the milling characteristics of U.S. wheat and those that help harmonize U.S. and Russian grading systems. Of special interest is the rapid expansion of pasta production, especially for low-cost instant noodles, which could lead to imports of U.S. durum wheat. With proper promotion, U.S. exports to Russia should remain high even after post-crisis trade normalizes, and should continue to grow at 3% thereafter based on slow growth in the food processing sector. The projected value of U.S. exports in 2003 is \$33 million.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	1,575	2,100	2,520
B. Total Local Production	1,350	2,325	2,880
C. Total Exports	110	68	50.8
D. Total Imports	199	198	490

E. Total Imports from the U.S 7 132.5 200

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates. These figures also reflect the U.S. food assistance program.

7. Corn (Feed)

The Russian poultry and livestock industries require quality feed if they are to remain competitive and profitable. The current dominant market share enjoyed by U.S. exporters should be the basis for continued expansion of U.S. feed grain exports, particularly in the Russian Far East or other regional markets. Cooperation between the Feed Grains Council, USAPEEC and USMEF in providing technical assistance to the livestock and poultry sectors can provide an additional strategic marketing advantage for U.S. feed grain exporters. If restored, increased utilization of GSM or other USDA credit facilities could help to improve access to credit for Russian buyers and support expanded U.S. exports. Current trade is boosted by donations and sales on concessional terms. Effective promotion should allow U.S. exports to Russia to remain high even after trade returns to commercial terms. Efforts by the Feed Grains Council and U.S. cooperators are expected to lead to exports of \$13.1 million by 2003.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	483	450	250
B. Total Local Production	188	265	300
C. Total Exports	0.6	0.1	0.1
D. Total Imports	32	84	68
E. Total Imports from the U.S	10	66	67

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates. These figures also reflect food assistance sales to Russia.

8. Soybeans

The Russian poultry and livestock industries require quality feed to compete with western imported products, especially if the ruble strengthens. This is especially true of protein-rich feeds like soybeans. The Russian soybean market may expand because of import substitution and the increasing priority put on the recovery of the livestock industry by the Russian and regional governments. Cooperation between the American Soybean Association, USAPEEC and USMEF in providing technical assistance to the livestock and poultry sectors can provide an additional strategic marketing advantage for U.S. soybean exporters. Soy consumption will also be buoyed by increasing use of soy in meat packing and other food processing industries that have benefited from the weak ruble. The expansion of soy for other purposes such as soy cows in its infancy could be promoted further. If restored, increased utilization of GSM or other USDA credit facilities could help to improve access to credit for Russian buyers and support expanded U.S. exports. Effective promotion should allow U.S. exports to Russia to remain high even after trade returns to commercial terms. Efforts by ASA and other cooperators are expected to lead to exports of \$12.5 million by 2003.

(in \$ millions)	1998 actual	1999 actual	2000 estimate
A. Total Consumption	58	96	80
B. Total Local Production	59.4	83.5	70
C. Total Exports	15	12	10
D. Total Imports	3.4	40	42
E. Total Imports from the U.S	3	40	40

Source: Russian Customs, U.S. Department of Agriculture, and unofficial estimates.

CHAPTER VI: TRADE REGULATIONS, CUSTOMS, AND STANDARDS

A. Trade Regulations

1. Russian Export Controls

Weapons, military equipment and dual-use materials and technology continue to require Russian export licenses. Oil exports are controlled through quotas for pipeline access granted by the Ministry of Fuels and Energy.

United States Export Controls: Certain high technology or dual-use products, such as weapons and high-speed computers are subject to United States government export restrictions. Such restrictions may include pre-license checks and/or post-shipment verifications. The United States has prohibited U.S. exports to ten Russian enterprises suspected of collaboration with Iran in the development of ballistic missile and/or nuclear weapons. Exporters should seek guidance from the Export Counseling Division of the U.S. Department of Commerce's Bureau of Export Administration (see Chapter XI for contact information).

Import/Export Documentation: Importers are required to complete a Russian customs freight declaration for every item imported. Certificates of origin and conformity (see "Product Standards" below) should also be presented at customs. Exporters are required to complete an export declaration and, if necessary, present the appropriate export license at customs. In addition, currency control regulations require issuance of a "passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

B. Customs Regulations

On April 1, 2000 the new Customs Regime of the Russian Federation took effect. Based on the international harmonized system, the new regime utilizes 10-digit classification codes called the Commodity List of External Activity of the Russian Federation. Russian import tariff rates currently range from zero to 30%, depending on the item, and average 14%. Russian import duties pose particular obstacles for products such as automobiles (where calculations based on engine displacement puts many U.S. vehicles at a disadvantage) and aircraft for which the rate is a prohibitive 30%.

The Russian government is considering measures to unify and rationalize import duties. It is planning to reduce the maximum tariff from 30% to 20%, eliminating zero tariffs and making the rest more uniform. Zero tariffs may stay exclusively for insulin, non-advertising and non-erotic printed matter, wheelchairs, and possibly cotton. All other goods which were previously duty free will be levied a 5% tariff. The existing 11,400 groups of commodities will be divided into four categories and assigned tariffs of five, 10, 15, or 20%.

In addition to tariffs, there are two types of charges applied to imports, the ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate is now 20%, with the exception of foodstuffs (for which VAT is 10%), and is applied to the import price plus tariff plus excise tax. The excise tax applies to a number of luxury goods, alcohol, cigarettes and autos, and varies from 20% to 570%.

For further information, see the Russian State Customs Committee Website: www.custom-house.ru

Customs value is generally considered to be the CIF (cost-insurance-freight) price of the goods imported. A customs processing fee of 0.15% of the cost is also levied. Customs duties are payable in hard currency or rubles at the current exchange rate. According to customs regulations, processing should take no longer than one month. If goods are refused entry by Russian Customs, regulations call for their return to the country of origin.

Foreign companies accredited by the Russian government are exempt from customs duties on certain temporary imports. This applies to goods imported for company use and for one year only. Companies not accredited by the Russian government are charged 3% of the total cost of the product on a monthly basis. (In this case, valuation is based on original product price plus all import taxes.)

Free Trade Zones/Warehouses: There are no actual free trade zones in Russia. However, there are some free economic zones, free customs zones, and free warehouses designed to encourage investment in specific areas. Federal legislation on the development of free economic zones (FEZs) is no longer a Russian priority, despite draft bills which periodically resurface. In 1997, a bill attempting to harmonize tax holidays and other concessions for FEZs across Russia passed parliament only to be vetoed by the president. Previously-established FEZs, including the high profile Kaliningrad FEZ, have generated little new investment.

More recently, with the onset of the financial crisis and the government's emphasis on improving revenue collection, the concept of FEZs has been criticized as a threat to federal budget revenues. Alternatively, the government has turned to smaller-scale "free customs warehouses" as in the case of the 1998 Automobile Industry Decree 135. Customs duties do not apply in free customs zones and free warehouses. Some production and wholesale transactions (but not retail sales) can take place within these zones. The storage period is unlimited. Free customs zones and free warehouses are located in customs areas (airports, seaports, railway and truck terminals) and, according to Decree 135, selected automobile factories.

Membership in Free Trade Agreements: Russia currently participates in a free trade agreement with the CIS. Russia has an association agreement with the European Union (effective December 1997), proposes to join the World Trade Organization, and currently receives MFN treatment and GSP status from the United States. A customs union with Belarus, Kazakhstan, Kyrgyzstan and Tajikistan has been formed, but is not operational.

Import licenses are issued by the Russian Ministry for Economic Development and Trade or its regional branches, and controlled by the State Customs Committee. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many items:

- Ethyl alcohol
- Vodka
- 14, 21, and 25-inch color televisions
- Combat and sporting weapons
- Self-defense articles
- Explosives
- Military and ciphering equipment
- Radioactive materials and waste
- Strong poisons and narcotics
- Precious metals

- Alloys
- Stones
- Carpets
- Tobacco products
- Medicine

To learn whether an import license is needed for a particular product, contact the Russian Ministry for Economic Development and Trade licensing department.

C. Product Standards

The Russian government does not recognize many international standards such as the ISO-9000 system. Instead, many imported products destined for sale or use in the Russian market must have a certificate of conformity issued by the Russian State Standards Committee (Gosstandart). Gosstandart tests and certifies products according to Russian government standards. Other agencies are also involved in certification, including the Ministry of Agriculture (food products), the Ministry of Health (medical devices and pharmaceuticals), the State Communications Committee (telecommunications equipment and services), and the State Mining and Industrial Inspectorate (equipment for the mining, oil and gas industries).

Gosstandart accepts testing protocols from Underwriters Laboratories, the IECCE (electrical equipment) and the IECQ (electrical components), both of which fall under the International Electrotechnical Commission.

Once received, the certificate of conformity is valid for 3 years and must accompany every shipment. Copies of the certificate are acceptable if they are affixed with original seals of the U.S. company holding the original certificate. Russian retailers are obliged to have on hand certificates for all imported products sold in their stores; violation of this requirement can bring penalties of up to \$10,000.

U.S. firms in Russia point to standardization and certification as an area of concern. The issue is under debate in the Russian government. Foreign companies complain of obscure standards and compliance process, unreasonably high demands, and excessive costs of certification testing. The Russian government is also under pressure to harmonize existing Russian standards with international standards so that Russia can gain access to the World Trade Organization.

Improvement of the system is likely in coming years partly resulting from dialog between international business and the Russian government and scientific personnel. The Russian government and people feel a need for government protection of public and consumer safety. However, sufficient funding and oversight is necessary to achieve results acceptable to the Russian public and to keep Russia open to the benefits of trade and new technology. For more information, visit Gosstandart's website: www.gost.ru

D. Product Labeling

New labeling regulations for non-food products came into force on July 1, 1998. Companies are advised to check their compliance with these requirements before shipping products. Regulations can be obtained from Gosstandart (see contact information in Chapter XI).

CHAPTER VII: INVESTMENT CLIMATE STATEMENT

A. Overview

The Russian economy has shown strength recovering from the August 1998 financial crisis, and real growth in the economy has helped spur limited new investment from both domestic and foreign investors. Many problems persist, however, including chronic difficulties in the overall investment climate and a weak commercial banking sector. President Putin's government has shown a strong interest in attracting foreign investment and has promised to enact structural changes that would improve the environment for investors. However, most of these key steps have yet to be enacted.

1. Bilateral Investment Agreements

Russia inherited from the Soviet Union 14 bilateral investment treaties (BITs) with Austria, Belgium and Luxembourg, Great Britain, Germany, Italy, Spain, Canada, the People's Republic of China, Korea, the Netherlands, Finland, France, and Switzerland. They were ratified in 1989-90 and came into force in 1991. Russia has since negotiated another 34 agreements, of which 19 have been ratified: with Greece, Cuba, Romania, Denmark, Slovakia, Czech republic, Vietnam, Kuwait, India, Hungary, Albania, Norway, Yugoslavia, Italy, Lebanon, Macedonia, the Philippines, Egypt, South Africa, and Japan. The U.S. bilateral investment treaty, signed in 1994, is still awaiting Russian ratification. Discussions with the Russian government about submitting the BIT for ratification remain inconclusive.

2. Openness to Foreign Investment

During Putin's tenure as Prime Minister and now President, the Russian government has strongly stressed attracting foreign direct investment (FDI), particularly through structural reforms. While many regions have also developed legislation and programs to attract FDI, there is increasing scrutiny of regional investment incentives, and laws have been proposed in the Duma to limit such incentives, such as tax breaks for large investment projects. In practice, large investors continue to receive incentives, but these incentives are usually offset by chronic and severe shortcomings in other areas. High tax levels and extremely high costs of complying with the Russian tax regime, inconsistent government regulation, the inability of some investors to obtain redress through the legal system, and crime and corruption all dissuade investors. These systemic problems are exacerbated by weak purchasing power, lack of financing, and concerns about economic and political stability.

The 1991 Investment Code guaranteed foreign investors rights equal to those enjoyed by Russian investors. This principle of national treatment was confirmed by the July 1999 Law on Foreign Investment, but the 1999 law included a grandfather clause that protects certain large investments (over approximately \$41 million) from unfavorable changes in tax or other legislation for a period of seven years. In practice, these protections have yet to be codified, since the implementing regulations are still lacking. Tax and customs administrations have refused to implement the law's provisions until corresponding changes have been made in tax and customs legislation. The administration and the Duma are discussing legislation to complement the 1999 law, which would specify the sectors where foreign investment would be either prohibited or could be restricted.

Explicit restrictions on FDI have so far been limited to specific sectors. A 1998 law on the aerospace industry, for example, limits foreign ownership to 25% of an enterprise. Foreign ownership in the natural gas monopoly Gazprom is technically limited to 20% but use of joint ventures to purchase additional shares has allowed Gazprom to pursue its strategic partnership

with Ruhrgas of Germany without legal problem. A 1999 law permitted majority-foreign-owned insurance companies to operate, but prohibits them from selling life or compulsory insurance, and limits overall foreign capital in the insurance industry to 15%. A 1998 law (not enforced) limits foreign investment in the electric power giant Unified Energy Systems to 25% or less.

In the past, the Russian government limited foreign investment to no more than 12% of total banking capital, but the Central Bank has recently discussed an upward revision of this restriction and has liberally interpreted the law. Prior approval of the Central Bank is required for investment in the following cases:

- new enterprises using assets of existing Russian enterprises
- foreign investment in defense industries (which may be prohibited in some cases)
- investment in the exploitation of natural resources
- all investments over 50 million rubles
- investment ventures in which the foreign share exceeds 50%
- investment to take over incomplete housing and construction projects

Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large-scale construction or modernization may also be subject to review for environmental considerations. In sectors which require licensing (e.g. banking, mining and telecommunications), procedures often can be lengthy and obscure. Although the situation has improved over the past few years, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia. Investors in some sectors also may face restrictions requiring that a certain percentage of staff be Russian citizens. However, given the small size of expatriate staffs in most operations here, these restrictions have had little practical consequence.

During large-scale and case-by-case privatization from 1994-1997, foreign investment was a contentious issue. The Russian government failed to establish clear and consistent laws in this regard, despite apparent intentions to do so. The high profile loans-for-shares privatization program of 1995-1996 banned foreign investors from auctions in the oil, gas and precious metals sectors. Foreigners have participated in subsequent oil and gas sector privatization auctions, although some foreign firms appear to be affiliates of Russian companies. Foreign investors participating in Russian privatization sales often are confined to limited positions and face problems with minority shareholder rights and corporate governance. The treatment of foreign investment in new privatizations is likely to remain inconsistent. Roughly three-quarters of the Russian economy is now in private hands, but some privatization of remaining state holdings is likely to continue at local, regional and federal levels as governments seek additional cash, and some of these offerings may be considered good buys. Potential foreign investors should work directly and closely with the appropriate local, regional and federal officials who exercise ownership and other authority over companies whose shares they may want to acquire. Of course, investors should also work with experienced and competent legal advisors.

Some economic problems linger from the 1998 financial crisis and continue to dampen foreign investment. Despite recovery, weak purchasing power continues to reduce the attractiveness of investments. Many companies report slight gains in their earnings, although many have not returned to pre-1998 levels. Overall U.S. exports to Russia have risen from a sharp drop in late 1998, but first quarter 2000 exports were still 17% down from the same period in 1998. Given this environment, projects face difficulties qualifying for financing, as few western banks will accept Russian risk.

The rule of law and respect for property rights, although gradually showing some improvement over the years, remains a key concern for foreign investors. Many large U.S. companies remain reluctant to pursue a strategy of growth through acquisition in Russia out of concerns about liabilities associated with existing operations (especially environmental cleanup), hidden financial liabilities, political pressures which would hinder economic restructuring, inadequate bankruptcy procedures, and weak protection of minority shareholder rights.

B. Investment Issues

1. Private Ownership

Both foreign and domestic legal entities may establish, purchase and dispose of businesses in Russia. Investment in some sectors, which are regarded as affecting national security (insurance, banking, natural resources, communication, transportation, and defense related industries) may be limited, and the Duma is considering legislation to codify areas in which foreign investment is prohibited or can be restricted.

2. Protection of Property Rights

The Russian Constitution and a Presidential decree issued in 1993 give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property (usually not including the land on which it stands); however, legislative gaps and ambiguities impede the general exercise of these rights. A 1993 Presidential decree gave joint ventures with foreign participants the right to own real property. The rights of Russian citizens to own and sell residential, recreational, and garden plots is, however, clearly established with over 40 million properties of this type under private ownership.

Although a presidential decree in the spring of 1996 permits the ownership and sale of land, Russia does not yet have a land code to regulate use and ownership. A privatization decree issued in summer 1994 permitted foreign owners of privatized companies to receive title to enterprise land; however, such rights have not been codified. The Duma maintains that the decree is not constitutional. Uncertainty about more general rights to land title and mineral rights will persist until the Duma and Administration agree upon clear and comprehensive legislation to regulate land use and ownership. The government has announced that reforming the land code will be one of its legislative priorities, but given the political sensitivity of the issue, it is not expected to receive consideration until at least the latter part of 2000. In the meantime, regional legislatures are starting to fill in the gap. In 1997 and 1998, Saratov and Samara Oblasts (regions) approved laws allowing the free trade of land in their jurisdictions.

In 1992 and 1993, Russia enacted laws strengthening the protection of patents, trademarks and appellations of origin, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. The patent law, which accords with the norms of the World Intellectual Property Organization, includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for 10 years and utility models for five years. The law on trademarks and appellation of origins introduces for the first time in Russia protection of appellations of origin and provides for automatic recognition of Soviet trademarks upon presentation of the Soviet registration certificate.

Furthermore, the Law on Copyright and Neighboring Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years and is compatible with the Bern convention. The September 1992 Law on Topography of Integrated Microcircuits protects software and semiconductor topographies for 10 years from the date of registration. Russia has also acceded to the Universal Copyright Convention, the Paris Convention, the Bern Convention, the Patent Cooperation Treaty, the Geneva Phonogram Convention, and the Madrid Agreement. Under the U.S.-Russian Bilateral Investment Treaty (BIT), which has not yet been ratified by the Duma, Russia has undertaken to protect investors' intellectual property rights. The U.S.-Russia Bilateral Trade Agreement mandates protection of the normal range of literary, scientific and artistic works through legislation and enforcement. The Russian government is currently drafting changes in Russian laws to make them conform to WTO standards.

While the Russian government has successfully passed good laws on protection of intellectual property, enforcement of those laws has been a low priority. A new criminal code went into effect on January 1, 1997, which for the first time applies criminal penalties to IPR violations, but there are shortcomings in this law that need to be addressed. In 1997, Russia was elevated to the "priority watch list" category under "special 301" provisions of the U.S. trade act primarily for failing to provide protection for pre-existing U.S. copyrighted works and sound recordings still under protection in the United States.

Until adoption of legislative and judicial measures providing effective IPR enforcement, U.S. industry can expect continued widespread piracy of its videocassettes, recordings, books, software, clothing and other consumer goods. Annual losses to manufacturers, authors and others are estimated to be in the hundreds of millions of dollars.

3. Expropriation and Compensation

The 1991 investment code prohibits the nationalization of foreign investments except following legislative action and where deemed to be in the national interest. Such attempts may be appealed to the courts of the Russian Federation, and are to be paid with prompt, adequate and effective compensation.

The current Russian government is unlikely to nationalize foreign investment or engage in expropriation. However, in several cases, local government interference, or lack of enforcement of court rulings protecting investors, has been a problem. The U.S. Embassy tracks a number of cases in which foreign companies are seeking compensation for the loss of their investment or property due to regional government action or inaction. Arbitration or legal proceedings are pending in some of these cases. To date, no award payments have been made.

4. Dispute Settlement

Russia has a body of conflicting, overlapping and changing laws, decrees and regulations, which has resulted in an ad hoc and unpredictable approach to doing business. Independent dispute resolution in Russia can be difficult to obtain in a developing judicial system. Regional and local courts are often subject to political pressure.

Many Western attorneys refer their Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 law now allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was made. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international

arbitration. However, the enforcement of international arbitration ultimately requires action from Russian courts and follow-up by court officers through a system of federal bailiffs that has yet to prove itself.

There are legal avenues available through Russian arbitration. One choice is the Arbitration Court of the Russian Federation, which is part of the court system. It has special procedures for seizure of property before trial, so property cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. Applications can be made by parties to foreign trade agreements and by companies with foreign investments. A similar arbitration court has been established in St. Petersburg.

As with international arbitrage, the weakness in the Russian system is in enforcement of decisions. In one case, for example, after four years of successful international and Russian litigation with repeated favorable decisions and court orders for financial restitution, a U.S. investor continues to await compensation from his joint venture partner. However, in another case involving an U.S. investor who was blocked from assuming control of a company by the former management, a settlement was reached this year in favor of the U.S. investor.

5. Crime and Corruption

Crime is one of the most frequently cited concerns of foreign (and Russian) businesses, particularly those involved with large amounts of cash and goods. While organized crime is not new to Russia, recent years have seen an increase in the range and frequency of criminal activity. Unfortunately, legal and judicial reforms have not kept pace with criminal advances. Much crime is tied to commercial activity, and many Russian entrepreneurs report that they must pay kickbacks and protection to stay in business.

U.S. firms have identified corruption as a pervasive problem, both in the number of instances and in the size of bribes sought. Successive Russian governments have designated the fight against corruption as a priority task of government due to its economic costs (particularly the deterring of foreign and domestic investment and encouragement of capital flight). President Putin has repeatedly stressed that enforcement of laws is a high priority of his administration. Russia has laws and regulations against bribery and other forms of corruption, but penalties are often insufficient to act as a deterrent. Crime statistics for 1997 show a slight increase in reported crimes.

6. Transparency of the Regulatory System

The legal system in Russia is still in flux, with various parts of the government struggling to create new laws on a broad array of topics. In this environment, negotiations and contracts for commercial transactions are complex and protracted. Russia has implemented only part of its new commercial code (contained within the civil code) and investors must carefully research all aspects of Russian law to ensure that each contract conforms with Russian law and embodies the basic provisions of the new, and where still valid, old codes. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government and jurisdictions interpret and apply regulations with little consistency and the decisions of one may be overruled or contested by another. President Putin has stressed the consistent application

of national law, and has ordered some regions to alter tax and customs policies which differed from national policy.

Legal requirements may be less burdensome than reaching final agreement with local political and economic authorities; registration can be a lengthy, bureaucratic process, particularly where natural resources or defense production are involved. Corruption is widespread and the fears of some Russian officials that foreigners will purchase Russian assets at below-market rates can impede bureaucratic approval. Environmental concerns are being raised more frequently now by Russian officials at federal and local levels as considerations in the approval process for investments.

C. Financial Issues

1. Taxation

The tax system continues to be a major complaint for foreign investors in Russia. The large number of taxes, the high cumulative tax burden, and the absence of a coherent, uniformly applied tax regime present difficulties for investors. One of the significant issues is that relatively few expenses are permitted as deductions from income to determine taxable profit, although the government has promised foreign investors that it will widen the deductibility of some expenses, such as advertising and representational expenses. Depreciation schedules far longer than in most Western countries also limit the taxable deductions for depreciation of plant and equipment. Moreover, a high incidence of tax avoidance by Russian companies has placed an even greater tax burden on foreign companies, with some complaints that foreign companies are more frequently targeted for tax inspections. Due process is relatively weak. Although foreign firms have successfully appealed to the courts, tax authorities have been slow to implement these decisions. Penalties for non-compliance include confiscation, and a company's accounts can be frozen relatively quickly. Tax authorities do not differentiate between criminal intent and honest mistakes when levying fines and penalties. The tax authorities currently do not have any organized administrative dispute procedures. As a result, companies often have little recourse other than the courts during tax disputes.

The greater part of Part One of Russia's new four-part Tax Code was implemented on January 1, 1999. Provisions thus implemented include narrowing the list of permissible types of taxes at various levels (other types of taxes are, by implication, prohibited). Major federal taxes include value-added tax, excise tax, corporate profits tax, capital tax (essentially on interest and dividends), social benefits fund taxes, customs duties and individual income tax. Permissible regional taxes include those on corporate property, real estate, highways, sales, gaming, and regional licensing fees. Permissible local taxes include those on land, individual property, advertising, inheritance and gifts, and local licensing fees. Other significant changes resulting from enacted provisions of part one include some enhancement of taxpayer rights vis-a-vis tax authorities. Taxpayers are now entitled to receive written clarifications on tax questions from tax authorities, the number of times taxpayers can be audited for the same tax questions is limited, and tax enforcement authorities are theoretically liable for losses caused by any wrongdoing on their part. In addition, enacted provisions of part one permit a regional level investment tax credit of from two to five years.

Effective April 1, 1999, Russia's corporate profits tax rate was reduced to 30% from 35%, a move long called for by many foreign and domestic investors. Part II of the Tax Code just passed and will likely be signed into law by Putin soon. Other government tax proposals include

sharply reducing turnover and payroll taxes, while raising excise taxes on gasoline, alcohol and tobacco. Value-added tax (VAT) rates are generally 20%, but the range of goods taxed at 10% (largely foods and medicines) was widened this year. Both domestic and foreign companies exporting goods regularly complain that they are unable in practice to receive refunds of VAT for exported goods.

2. Foreign Trade Zones/Free Ports:

Federal legislation on the development of Free Economic Zones (FEZs) is no longer a Russian priority, despite the existence of several draft bills. In 1997, a bill that attempted to unify tax holidays and other concessions for FEZs across Russia, passed parliament only to be vetoed by the President. Previously established FEZs, including the high profile Kaliningrad FEZ, have generated little new investment. More recently, with the onset of the financial crisis and the government's program to improve tax collection, FEZs have been criticized for causing large losses to the federal budget. The government has turned to the model of smaller-scale and more readily controlled "free customs warehouses" as a possible alternative, as in the case of the previously mentioned Auto Decree.

3. Capital Markets, Portfolio Investment, and Banking

The August 1998 financial crisis caused a sharp decline in prices of all shares (exacerbating an already-existent downward trend) and paralyzed Russia's securities market for more than a year. The Moscow International Currency Exchange (MICEX) was forced to halt secondary trading of government securities, the nominal stock of which stood at R394 billion (\$64 billion) before the crisis. At the same time, MICEX closed its Foreign Exchange Futures operation and, eventually, even stopped forex trading. The Russian Trading System (RTS) market capitalization shrank dramatically, from \$45 billion in December 1997 to \$11 billion in December 1998.

Russian securities markets began a gradual recovery from the shock of the financial crisis in the second half of 1999. By the end of 1999, the RTS index had returned to its pre-crisis levels of June-July of 1998. It continued to increase in 2000, reaching 211.25 on March 9, 2000, its highest level since May 25, 1998. RTS market capitalization increased in unison, reaching \$22.8 billion in July 1999 and \$32.4 billion in December. As of the middle of March 2000, the RTS market capitalization was \$41 billion, still below its December 1997 levels.

Although recovered substantially from the 1998 financial crisis, Russian equity markets continue to be plagued by low trading volumes and a lack of liquidity for all but blue chip stocks. Approximately 70% of all stock trades take place off exchanges due, inter alia, to a desire by investors to avoid an issuance tax and disclosure of ownership.

Twelve stock exchanges operate on the Russian market. The dominant stock exchanges are in Moscow, the equity trading floor on the MICEX and the Moscow stock exchange (MSE). Equity trading on the OTC market is handled electronically by RTS and is patterned on NASDAQ with 270 users. Several Russian regional centers have their own stock exchanges, but trade volumes outside Moscow tend to be low. Regional exchanges are still dependent on Moscow-based participants

Government regulatory organizations, such as the Federal Commission on the Securities Market (FCSM) and, to a lesser extent, the CBR, are actively engaged in strengthening market infrastructure. They are aided in their efforts by self-regulating organizations (SROs) such as the Professional Association of Registrars, Traders and Dealers (PARTAB) and the National

Association of Capital Market Participants (NAUFOR). FCSM plans significant regulatory and legal changes in the securities market. A new joint stock company law was passed by the Duma in early 2000, but was amended by the Federation Council and its fate remains uncertain. FCSM is also preparing voluntary standards, and to amend voting rights provisions for ADR issues.

The banking sector is slowly recovering from the 1998 financial crisis. The CBR reports that as of January 2000, 80 of the 1349 licensed banks in operation showed symptoms of insolvency, down from 320 in April 1999. Part of that reduction is due to the CBR withdrawing 250 bank licenses. Aggregate capital in the banking sector (excluding Sberbank) has risen, from R41.2 billion in March 1999 to R111.3 billion in December 1999. In U.S. dollar terms, however, this is still only about one-half of the capital in the banking system in June 1998. Surviving banks have difficulty raising capital because it is difficult to generate significant returns on ruble assets relative to funding costs. If industrial sector performance continues to improve, banks may begin lending to industry. For that positive dynamic to fuel further economic growth, however, it will take time, effort and more capital.

The rebuilding of financial and banking markets in Russia will take time. The finance ministry's placement of new T-Bills in February will help revive the short-term money market. A few large Russian companies continue to issue corporate bonds. Discussions have intensified to create a negotiable commercial paper market, a development that would allow many managers to access the market directly for short-term needs.

4. Conversion and Transfer Policies:

The Central Bank of Russia (CBR) uses several administrative controls to limit capital outflows and direct inflows to the foreign exchange market. In September 1999, the CBR imposed a 100% import deposit requirement, including on prepaid service contracts. Proposals are pending in the Duma for pre-registering export contracts and reporting by banks on "suspicious transactions" used to circumvent capital flight restrictions. The CBR has tightened foreign exchange controls by:

- imposing restrictions on foreign exchange for import contracts
- requiring 75% of repatriated export proceeds to be sold on authorized exchanges
- not allowing banks to trade on their own accounts
- and by requiring banks to deposit amounts equivalent to those it holds in S-Accounts (discussed later) of non-residents

Under such conditions, the CBR may need only to make tactical interventions in the foreign exchange markets to smooth volatility.

Tighter currency controls contributed to reducing capital outflows, thereby supporting the ruble exchange rate. Such controls included the obligatory sale of 75% of foreign currency export earnings for rubles on authorized currency exchanges. Furthermore, there was a "special" morning foreign exchange trading session during which foreign currency could only be purchased for limited purposes (e.g. payment for goods imports). There was also a 100% prior deposit requirement for the advanced purchase of imported goods and services, limitations on the purchase of foreign exchange using rubles in correspondent accounts, and increased reporting requirements. Some of these restrictions are being eliminated, e.g. the special trading session, while other restrictions remain, such as limitations on the amount of foreign currency taken out of Russia by individuals.

The ruble is the only legal tender in Russia. There are two types of foreign currency operations under Russian law: (1) current operations (e.g., import/export contracts and loans not

exceeding 180 days); and (2) capital operations (investments, financial loans exceeding 180 days, and deferred import/export payments of over 90 days). Current operations have no limitations while capital operations generally require prior approval of the CBR. The CBR has sought to streamline the approval process for direct investment inflows.

Non-residents can open ruble accounts at authorized resident banks. A brief explanation of account types and their uses:

- T Accounts For servicing import and export operations
- I Accounts For investment activities. Examples: paid-in capital or profit repatriation
- S Accounts For investments in government T-bills

It is important to note that S Account holders of rescheduled T Bills may only repatriate their proceeds by buying foreign currency at occasional CBR auctions, investing in certain securities listed on the Moscow Interbank Currency Exchange (MICEX), or by investing directly in approved investment projects. Non-residents may open correspondent ruble accounts to service trade operations as well as ordinary ruble accounts. Residents may open foreign exchange accounts.

5. Performance Requirements and Incentives

Performance requirements are not generally imposed by Russian law, and are not widely included as part of private contracts. They have appeared in the agreements of large multinational companies investing in natural resources, and in production sharing legislation.

The Russian government's interest in attracting investment has been tempered by its precarious financial situation, concern about special privileges given to foreign investors, and interest in complying with the rules of the World Trade Organization and other international economic institutions. Those investment incentives set out in the 1991 investment law, including certain tax benefits, have never been implemented, or have been largely eliminated or superseded by subsequent laws and decrees. The current PSA legislation, as amended in late 1998, requires 70% local content over the life of a project. The Russian Auto Decree, signed in early 1998, allows tariff breaks for large investments in the auto industry (where investment projects reach 50% domestic content levels within five years). As mentioned above, the 1999 foreign investment law theoretically provides protection from unfavorable changes in taxes or customs duties for certain foreign investments exceeding \$41 million, but implementing legislation to enact such protections is still outstanding. In the face of severe fiscal shortfalls, Russia's government is under strong pressure to curtail existing tax incentives and to avoid offering new ones.

D. Sector Issues

1. Labor

The Russian labor market is fragmented, characterized by limited labor mobility across regions, and consequent wage and employment differentials. In Moscow, unemployment is very low, and monthly incomes are at least three times higher than the national average. Although statistics are unreliable and many forms of unemployment are not counted, unemployment, using International Labor Organization (ILO) standards, was 11.7% of the workforce in April 2000. However, the figure reaches as high as 40% in some depressed regions, and is generally considered to be about 25%, when all forms of partial and hidden unemployment (such as forced vacations) are taken into account.

Labor mobility continues to be restricted by an under-developed housing and mortgage market, housing shortages in many cities, and difficulties in obtaining residency permits and registration. Housing and utility costs for existing housing are disproportionately low relative to incomes, making workers loath to move. The lack of labor mobility across regions significantly affects wage rates and employment. Nonetheless, labor mobility across professions and within regions is common, as workers attempt to adapt to the needs of a market economy. The labor force is generally highly skilled and well educated.

Total wage arrears were \$1.38 billion in April 2000, of which \$230 million were government arrears (primarily regional governments) and 1.15 billion in enterprise arrears. This is lower than the previous year's level, although it appears that reductions in arrears are leveling off. Even during periods of high wage debts, sometimes exceeding six months pay, strikes have become less frequent than they were in the mid 1990s. Workers have increasingly used methods other than strikes to call attention to their plight. Enterprises that pay wages in full and on time generally have smooth labor-management relations.

The union movement is dominated by the Federation of Independent Trade Unions of Russia (FNPR), which inherited the property of its Soviet predecessors and which consists of formerly governmental unions. Trade unions outside this confederation have found it harder to operate as wage arrears hinder the ability of would-be members to pay union dues. The government has used a policy of favoritism toward FNPR member unions, and on the factory floors FNPR has used tactics which amount to "union busting" and even intimidation to suppress new unions.

The Russian government generally adheres on paper to ILO conventions protecting worker rights, though enforcement is generally lacking. In addition to wage arrears, worker safety is a major unresolved issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety procedures.

2. Oil and Gas

Accounting for half of Russia's export revenues and comprising a major share of the world's undeveloped energy resources, Russia's oil and gas sector holds tremendous potential for foreign as well as domestic investment. After a long delay, new production sharing legislation was adopted at the beginning of 1999. Five years after it passed the initial law on production sharing agreements (PSA), the State Duma finally approved the remaining necessary legislative components of Russia's PSA framework. Nonetheless, by mid-2000 the Russian government had yet to complete drafting the roughly one dozen government administrative instructions ("normative acts") necessary to create a functioning PSA regime. The finance and tax ministries oppose PSA implementation on revenue grounds, while western energy companies insist that PSA and the associated acts are preconditions for major western energy investment in Russia. Companies highlight the importance of harmonizing Russia's draft tax code with PSA legislation. Also important is Duma passage of additional "list laws" approving individual projects for PSA development. The \$1 billion invested to date in the Sakhalin II consortium demonstrates for Russia the tangible benefits of foreign energy investment. Elsewhere in the energy sector, progress on the \$2.5 billion Caspian pipeline consortium project shows that decisive government action can facilitate energy investment projects.

Changes in the ownership structure of the Russian oil industry have resulted in new, more market-oriented partners for U.S. firms seeking to invest in Russia. However, the sector remains

characterized by a lack of transparency and by the extensive influence of Russian oil and gas firms over the government and other economic actors.

3. Agriculture

The financial crisis of 1998 and subsequent ruble devaluation provided some price protection for Russian agriculture. Faced with reduced competition from imports, industry response was limited, because the sector remains grossly undercapitalized. Expansion of the food processing sector has been similarly constrained by farmers' inability to provide products to the processing sector.

With only a few isolated successes providing any encouragement, foreigners remain reluctant to invest in Russian agricultural production for several reasons. First, most Russian agricultural sector operators seek minority partners. Compounding this, few operations are available to be wholly owned by a foreign investor because of Russian concerns with food security and the possible loss of control over domestic production. Some regional administrations have added increased uncertainty to the investment climate by implementing embargoes on the movement of agricultural products out of the region after harvest, to ensure repayment of debts and to maintain local supply. Collective farms and state enterprises have undergone largely cosmetic reform -- many are now referred to as joint stock companies -- but still operate much the same as they did during Soviet times. In fact, many continue to carry social welfare responsibilities such as providing schools, medical facilities and full employment to local villages. The state's inability to pay for subsidies has left many agricultural enterprises under-capitalized and production is often a fraction of previous capacity. In the absence of land reform, it is difficult to obtain clear title to land and impossible to use land as collateral for loans.

Experience has shown that one of the most important factors determining success or failure of a foreign investment project in agriculture is the degree to which the local administration supports the project, is willing to clear obstacles when necessary and otherwise not interfere in project activities. Almost all administrations invite investment into their regions, but few are prepared to allow business to operate in a relatively open market without state interference. Such interference includes issues such as pricing inputs and output, and with whom businesses contract for services. Many local administrations still view foreign investors as little more than sources of cash for the support of local government and favored businesses.

4. Regional Initiative

The Regional Initiative is an assistance program launched in 1997 as a collaborative effort between the U.S. and Russian governments and regional authorities. The program operates with selected, progressive regional administrations to coordinate all U.S. government assistance programs operating in that region and to create models of success. The program is located in Novgorod, Samara, Tomsk and the Russian Far East (on Sakhalin). Among its many objectives, the Regional Initiative works to improve the local business climate, develop civil institutions, and strengthen the rule of law. These regions have benefited from programs to better market themselves to investors, establish investor conferences, pilot international accounting standards and set up lending programs for small business.

CHAPTER 8: TRADE AND PROJECT FINANCING

A. Overview Of The Banking System

The Russian banking system does not meet the nation's capital and credit needs, but a company doing business in Russia can find minimal banking services. The process is complicated by Russia's slow recovery from its 1998 financial crisis, which crippled many of the largest banks. Since 1995, the total number of banks has declined from approximately 2,600 to 1,320; of these, 300 barely survive. During the ruble's devaluation, the assets of Russia's banks shrank from \$88.7 billion to \$34.4 billion, a rate of more than 60%. By spring 2000, banks in the country experienced moderate improvement as their capital increased 2.8 times over the previous year. Nonetheless, capitalization of the banking system remains at 75% of the pre-crisis level. The problem partly results from limited government action to restructure Russia's banks after the crisis. The Agency for Restructuring Credit Organizations (ARCO) is charged with providing supervision of and temporary financial assistance to insolvent banks, but its resources are inadequate. To date, ARCO has attempted to restructure two large banks and about 15 small ones. After the 1998 crisis the Central Bank of Russia (CBR) proposed changes to the banking system, but no new legislation or institutions have appeared to improve the shortcomings of the banking system.

Limited choices and difficult tradeoffs confront companies choosing a bank in Russia. Companies can choose from three types of banks: a foreign-owned subsidiary, a state-owned Russian bank (newcomers to the commercial field), or a variety of Russian private commercial banks.

1. Foreign-Owned Banks

Most foreign businesses prefer to deal with foreign-owned banks because they are more stable and generally offer better quality service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, strong demand has drawn them into diversifying their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services including accounts, transfers, currency exchange, credit, documentary operations, letters of credit, and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele. Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg.

2. State-Owned Banks

Some state financial institutions are taking on the role of commercial banks and project an image of stability and prestige. Sberbank is the largest such institution in Russia because it was the savings bank for Soviet citizens. Following the August 1998 crisis, it received individual accounts transferred from banks liquidated by the government. Therefore, Sberbank has an unmatched nationwide network of 50 branches and over 2000 outlets handling millions of private and commercial accounts. Sberbank is rapidly increasing its commercial loan portfolio but must prove that it can develop the organizational and management skills to successfully operate as a commercial bank.

Vneshtorgbank is another state bank. Originally founded to facilitate international trade, it is almost wholly owned by the Russian Central Bank. Since the crisis, it has focused on retail and corporate clients. Vneshtorgbank survived the 1998 crisis in by minimizing speculative trading in GKO's (short-term federal obligations) on which the government defaulted. As one of

the few institutions which met its obligations after August 1998, it has since garnered 7,300 new corporate and 7,100 new retail clients.

3. Russian Private Commercial Banks

Other viable Russian banks include emerging service-oriented banks and large banks owned by financial-industrial groups. The 1998 crisis severely impacted the major Russian banks, closing about 15 of the largest and leaving others in a weakened state and needing reorganization.

The most aggressive component of the Russian banking system is a group of new banks which grew larger following the 1998 crisis. These banks survived because they avoided speculation in GKO's and because they offer professional services. These banks are likely to remain customer oriented and to find creative solutions to Russia's business complexities. A potential weakness is their limited capacity to provide services comparable to those of large international banks. Furthermore, they lack nationwide coverage. Ten of the leading banks are:

- Gazprom Bank
- National Reserve Bank
- Sobinbank
- MDM Bank
- Bank of Moscow
- Mosbusinessbank
- Mezhprombank
- Avtobank
- Rosbank
- Alfa-Bank.

B. General Financing Availability

The Russian economy has shown some strength as it has recovered from the 1998 crisis. Real growth in the economy has spurred some lending by financial institutions; it has also led to domestic and foreign investment. Russian banks have recently become more active in equipment financing, providing such services as factoring and leasing. A number of western investment banks and venture funds which scaled back their Russia operations after the 1998 crisis have reactivated their lending. Additionally, the European Bank for Reconstruction and Development (EBRD) and a number of bilateral and multilateral financing programs provide more opportunities for traders and investors. The use of limited recourse project financing remains hampered by several factors: the immaturity of commercial legislation, contract enforcement, asset title, rights of debt and equity holders, and contractor performance requirements.

C. Currency Control and Regulation

Throughout the 1990s, capital flight of immense proportions plagued and seriously weakened the Russian economy. In response, the Russian government has undertaken measures to stem capital flight and to ensure repatriation of profits.

1. Foreign Currency Transactions

Russia has enacted strict legislation regulating currency transactions. Unrestricted foreign currency transactions may be completed on settlements under import/export contracts within 90 days, loans for terms of less than 180 days, and the payment of interest and dividends.

The provision or receipt of foreign currency financial loans with a maturity of less than 180 days may be carried out without prior CBR approval. However, if the loan is not repaid within 180 days and the transaction is rolled over for a further period, a CBR permit must be obtained to extend the repayment terms.

2. Passports for Deals

Russia exerts its currency control on export and import transactions through a system of "passports for deals." These passports are designed to control capital flight and facilitate currency convertibility. Exported goods are not released by customs until the exporter has provided the passport. After the goods are released, the authorized bank is required to exercise control over the payments and ensure that the contract terms are met and the payments credited to the exporter's account.

3. Capital Payments

A CBR permit is required for export/import transactions classified as capital flows. For export actions regulations require a CBR permit for a deferral when payment will be made more than 90 days after the export date. In the case of import transactions, a CBR permit is required when more than 90 before days pass between the payment and the import. A CBR permit is also required to assign an exporter's or importer's payment right and the assignment of an importer's or foreign supplier's debt to a third party. Lastly, CBR permits are required for offsets of mutual claims of an exporter with an importer and third parties. Likewise, a permit is required for offsets of mutual claims of an importer with foreign suppliers and third parties.

4. Mandatory Conversion of Sales Proceeds

Residents engaged in export of goods and services must remit all their foreign currency proceeds to a transit account in Russia and then convert 75% (utilizing an authorized bank) to rubles.

5. Ruble Deposit for Import

Importers making advance payments in foreign currency for imported goods are required to deposit an equivalent ruble amount at a bank authorized to transact advance payments. This deposit is reimbursed only after the importer presents documents confirming the import has entered Russia.

D. Financing Exports and Payment Methods

Companies new to exporting to Russia should insist on advance payment for goods and services. In fact, this is the normal procedure for most transactions in Russia. Russian banks issue letters of credit only when the Russian buyer can deposit the requisite funds ahead of time. Prior to the 1998 financial crisis, western banks would only accept letters of credit only on that basis; today, very few western banks accept Russian letters of credit under any circumstance. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short-term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases financing may be provided by a bank, export credit agency or venture fund. In

cases when leasing is appropriate, exporters should insist on payment of three to four months upon delivery.

As many as twenty Russian banks now offer factoring services. However, the volume and value of transactions using this technique have yet to attain levels which are either profitable or self-sustaining. Given chronic liquidity problems in the Russian economy, international leasing may become an important alternative to export sales. Currently, less than 5% of imported equipment is leased. Equipment for the aviation, energy, transportation, pharmaceutical, forestry and fishing industries, which may be too expensive for Russian customers to purchase, is often leased.

Barter and Promissory Notes: Liquidity of the Russian economy has significantly increased in the last several years from around 75% to where now roughly 25% of economic activity is conducted on a non-cash basis. In many transactions, goods or services are sold for other goods which can be used - or sold - by the original seller, who may have better access to cash-paying customers. While barter can be more complex than cash transactions, U.S. firms should not dismiss them, for they can be profitable and help a company win market share. As in cash transactions, companies are advised to stay engaged in all aspects of the deal, demand that commitments are met on schedule, and draw up contracts in accordance with Russian law to avoid tax and other problems.

Russian companies or government entities often offer ruble-denominated Veksels (promissory notes) in lieu of cash. While some reliable companies issue Veksels, other firms with no credit history, or worse, also issue them. U.S. companies should not accept promissory notes as direct payment. However, it may be worthwhile for them to rely on Russian banks or "vessel brokers" as intermediaries who will accept the final risk of the promissory notes to ensure that the U.S. exporter is paid in cash.

E. U.S. Export Credit Financing

1. The U.S. Export-Import Bank (Exim)

Exim began lending to support U.S. exports to Russia in 1992, offering loans based on sovereign guarantees from the Russian Government. Exim also developed financing structures based on hard currency revenues. With Russia's budget constraints undermining the Russian government's willingness and ability to offer sovereign guarantees, Exim has sought creative ways to finance transactions, including project finance. Exim's Oil and Gas Framework Agreement relies on pledges of exported oil to guarantee loans. Since 1993, Exim has supported nine transactions worth more than \$1 billion in the oil sector. Overall, Exim's exposure in Russia totals approximately \$2.2 billion as of July 2000. Companies interested in Exim financing should contact the bank directly (see Chapter XI for contact information).

2. The Overseas Private Investment Corporation (OPIC)

In an agreement ratified at the June 1992 summit, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees and investment insurance against political risks to U.S. companies investing in Russia. OPIC generally insures against three political risks: expropriation, political violence and currency inconvertibility. In 1994, to meet the demands of larger projects in Russia (and worldwide), OPIC doubled the amount of insurance and quadrupled the amount of finance support - to \$200 million in each case - it can commit to an individual project (a total of \$400 million).

OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. There are currently six OPIC backed investment funds which concentrate on Russia, the other NIS and the Baltic States, and another four funds which are global in scope. Through the end of fiscal year 1997, OPIC had committed \$3.26 billion in insurance, finance and OPIC-backed investment funds to over 125 projects in Russia. In December 1994, OPIC also committed to provide up to \$500 million to support defense conversion projects. Following the ruble devaluation of August/September 1998, OPIC ceased offering currency inconvertibility insurance for investments in Russia, although it still extends its other services. Currently, OPIC is evaluating whether to reintroduce inconvertibility insurance, given current conditions. Russia is a member of the Multilateral Investment Guarantee Agency (MIGA).

CHAPTER 9: BUSINESS TRAVEL

A. Visas

All Americans traveling to or transiting through Russia by any means of transportation must have a passport and visa. Travelers who arrive without a passport or entry visa may be subject to fines, days of processing requirements imposed by Russian officials, and/or deportation by route of entry at the traveler's expense. Visas, other than for transit purposes, are issued based on support from a Russian individual or organization - the sponsor. It is very important to know your sponsor and how he or she can be contacted. Russian law requires the sponsor to apply for replacement, extension or changes to your visa. The U.S. Embassy and Consulates cannot act as a sponsor. Tourists should contact their tour company or hotel in advance for information on visa sponsorship.

All foreigners must have an exit visa to depart. For short stays, the exit visa is issued along with the entry visa. For longer stays, the sponsor must obtain the exit visa after the traveler's arrival. All travelers who spend more than three days in Russia must register their visa through their hotel or sponsor. Visitors who overstay their visas, even for one day, or who neglect to register their visa, may be temporarily barred from leaving. Errors in dates or other information on the visa can and do occur, and it is helpful to verify this information before departing the United States. It is recommended that travelers have all entry, exit, and itinerary points listed on their visa, in order to avoid any difficulties in registering or any delays in travel. Although it is no longer legally required for all itinerary points to be listed, not all local authorities seem aware of the change. Random document checks by police on foreigners are infrequent but do occur, so U.S. citizens should carry their passport and visa (or photocopies). Failure to present proper documentation can lead to detention and/or fines.

B. Customs Regulations

Russian customs laws and regulations are rather complicated and administered at the discretion of local officers. The general trends of reforms that are currently in progress or under discussion should lead towards simplification of regulations and more uniform administration.

Currently, personal items not exceeding value of \$1,000 and weight of 50 kilos may be exported free of charge. A 30-percent duty may be required to export any personal items worth over \$10,000, although additional charges may be required depending on the type of item to be exported. Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or

cultural value -- icons, rugs, art, antiques, etc. -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of 100% duty. (Dealers of quality items should be able to arrange this approval at considerably less cost.) Certain items, such as caviar, medications, jewelry, precious/semiprecious stones or metals, and fuel may be exported duty-free in limited amounts only. Computers, electronic notebooks and related hardware must be presented to customs officials at the airport for scanning at least two hours prior to departure. Failure to follow the customs regulations may result in penalties ranging from confiscation of the property in question and/or imposition of fines or arrest.

Arriving travelers must present a customs declaration upon arrival stating the amount of currency brought into the country and listing items of value. This year a new regulation on export of foreign currency from Russia has been introduced. This regulation permits export of the equivalent of \$1,500 from Russia without presentation of confirming documents to Russian customs. People not intending to export more than \$1,500 may pass through the non-declaration "green channels" at incoming customs. Foreign citizens may export foreign currency in cash in an amount that does not exceed the total amount which they have imported or transferred to the Russian Federation. Export of foreign currency is permitted on the basis of a customs declaration stamped on entry into Russia or the certificate form No. 0406007 that is issued by the bank and confirms an equivalent transfer of funds to Russia.

To prevent possible difficulties in taking currency and valuables back out of Russia, the travelers are highly advised to ensure that their passenger declaration form is completed and is stamped by customs officials at the point of entry. This customs declaration should be kept and be available when exiting Russia.

C. Transportation

Air travel within Russia generally stays on schedule, and the quality of service continues to improve -- albeit from a rather low base. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers. Moscow has four major airports. Most international flights enter Moscow through Sheremetyevo-2. Travelers may continue to other Russian cities from Sheremetyevo-1, Vnukovo or Domodedovo airports. Travel time to the connecting airport can be as much as an hour and a half from Sheremetyevo-2, and ample time must be allowed for passport control, customs clearance and baggage retrieval. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

A good way to travel in Russia is by train. From St. Petersburg to Moscow, travelers can generally ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pickpocketing have been reported. Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines," and bandits occasionally prey on travelers, especially in isolated areas.

In Moscow and St. Petersburg, the metro (subway) is an efficient and inexpensive, though crowded, means of transport. Signs are in Russian only, so it is helpful at least to learn the Cyrillic alphabet before you come. Marked taxis are increasingly present in Moscow and St. Petersburg. Short-term business travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter jaunts.

D. Travel Tips

1. **Language:** Though many better-educated Russians in major cities speak English, you should be prepared to operate in Russian. Many first-time visitors are struck by how difficult it can be to find anyone who speaks English. U.S. businesses should hire a reputable interpreter when conducting important negotiations. Not having product literature in Russian will put your company at a big disadvantage relative to your European and Asian competitors, not to mention local firms.
2. **Hotels:** While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are undeveloped in most of Russia, and many goods and services taken for granted in other countries are not yet available. Moscow, St. Petersburg, Novgorod, Nizhnevartovsk, Perm, Samara, Yekaterinburg, Perm, Sochi, Yuzhno Sakhalinsk and Vladivostok, among other cities, have Western-style hotels, though often priced at a premium compared with other major cities of the world. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates. Some regional hotels raise rates for foreign guests. It is possible to find well-appointed hotels in some small towns; it is equally possible to find yourself temporarily without water or electricity when visiting other regions of Russia.
3. **Clothing:** While winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities, Moscow's and St. Petersburg's climate can be less severe than some northern U.S. cities. Winter clothes may be needed as early as October or as late as April. Water-resistant footwear with thick soles is advised, because the pavement is often rough and large puddles form after rain. In winter one must be prepared for either slush or icy sidewalks. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels.
4. **Healthcare:** As in many countries of the world, travelers should drink only boiled or bottled water. Medical care is usually far below western standards, with occasional shortages of basic medical supplies. In Moscow and St. Petersburg there are now a number of western managed medical and dental clinics that provide adequate ambulatory care. Such facilities usually require cash payment at western rates upon admission. For serious medical conditions, it may be necessary to travel to the West, and this can be very expensive if undertaken under emergency conditions. The cost of a medical evacuation from some Russian regions may exceed \$50,000. Thus, travelers should check their insurance coverage and consider buying supplemental coverage for medical evacuation. Elderly travelers and those with existing health problems may be at particular risk. Further information on health matters can be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at (404) 332-4559, or via the CDC home page at www.cdc.gov. The U.S. Embassy and Consulates maintain lists of such facilities and of English speaking doctors.
5. **Food:** A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, Mexican and fast food establishments. Russian food is not exotic to American tastes, and many visitors find such regional cuisine as Caucasian,

Georgian, and Uzbek to be interesting contrasts. In smaller communities, visitors often must accept the food available at hotels or traditional Russian restaurants.

6. Money: The ruble is the only legal tender in Russia and it is illegal to pay for goods and services in U.S. dollars and other foreign currency. Old, worn, or marked dollar bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchanges are available in most shopping areas and provide reliable service. Credit cards are now accepted at modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but at very few stores. Traveler checks are not widely accepted except in major cities, and only rarely at stores catering mainly to Russians. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing travelers checks or obtaining cash advances on credit cards. Automatic Teller Machines are becoming more common in downtown Moscow, although there have been some instances of theft from card numbers used in these systems. Western Union has agents in Moscow, St. Petersburg, and some other large cities, which disburse money wired from the United States.

7. Russian Holidays: The holidays listed below are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend. Travelers should be advised that little business is done from New Year's day to Orthodox Christmas and that many enterprises close during the period. The period from May 1 through May 9 is similar.

January 1	New Year's Day
January 7	Christmas (Orthodox)
March 8	International Women's Day
May 1	International Labor Day
May 2	Spring Day
May 9	Victory Day
June 12	Independence Day
November 7	Revolution Day
December 12	Constitution Day

When holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday.

8. Crime: Recent police statistics for Moscow report an overall decline in crime, though drug-related crimes, murders, and kidnappings have increased, and street crime, sometimes violent, remains a continuing problem. Nevertheless, the violent crime rate in Moscow and St. Petersburg is still below that of many major U.S. cities and the perceived threat is not severe. Crime rates are generally much lower outside major cities (notwithstanding terrorist activity in and around Chechnya, and the adjacent republics of Dagestan and Ingushetia). In Moscow and St. Petersburg, the most prevalent crime is theft, primarily from hotel rooms and train compartments, and by pickpockets and bands of street criminals. While there is little overt anti-American sentiment in Russia, Westerners are often targeted because of their perceived wealth, and street criminals operate in areas frequented by tourists and business travelers. Most foreigners are easily identifiable on Russian streets. Early this year, there were several violent incidents between groups of "skinheads" and young Americans in the early morning in Moscow

clubs. Since there appears to be a risk of such incidents in Moscow's nightclubs, the Embassy has warned Americans to exercise caution and to not frequent such clubs after 2:00 a.m.

To reduce the risk of personal crime, U.S. visitors should be alert to their surroundings and guard belongings in hotels, restaurants and other high-density tourist areas. Do not assume that you can blend in on the street. Do not leave valuables in hotel rooms, keep your passport and visa with you at all times, and retain copies in separate locations in case of loss or theft of the originals. Be alert to the potential for robbery in metro stations or trains where gangs of adults and children sometimes seize handbags or pick pockets. Also be alert to scams on the street or in stations involving money changing or lost or found money. On inter-city overnight trains, secure the door to your compartment with some sort of jamming device (many people simply use a wire coat hanger). While many residents of Moscow and St. Petersburg flag private "gypsy cabs" for rides, this is a riskier form of transport that is better avoided by the inexperienced. Travelers are advised to use only marked taxis.

Finally, American business people who utilize local banking, security and medical treatment should provide only the minimum information required for service. Reports have been received indicating that confidential credit, financial, banking and medical information has been supplied to organized crime gangs. In turn, these gangs use the information to extort foreigners.

E. Travel Advisories: The State Department issues travel advisories when warranted by local conditions. Travel to Chechnya and surrounding areas is extremely dangerous due to continued military action and political tension in the area. Some U.S. citizens have been killed or have disappeared in Chechnya or adjacent Dagestan; and local gangs continue to seize hostages on occasion. Anyone considering travel to such areas is strongly urged to obtain an up-to-date travel advisory from the U.S. Department of State (Tel 202-647-4000 or the travel advisory link from website www.state.gov). Public gatherings and demonstrations occur occasionally in major cities of Russia. Although such demonstrations are usually peaceful, travelers are urged to exercise caution in areas where large groups are gathered. Anti-American demonstrations during the 1999 NATO bombing campaign in Yugoslavia briefly affected Embassy services.

F. Drug Penalties: U.S. citizens are subject to the laws of the country in which they are traveling. Penalties for possession, use, or trafficking in illegal drugs are strict and convicted offenders can expect jail sentences and fines.

G. Russian Embassy/Consulate Locations and Services: All Americans who reside in Russia for three months or longer are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates. Those staying for shorter periods may also register and inquire about updated travel and security information. Registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency. Americans can obtain visas from the Consular Section of the Russian Embassy or from one of three other Russian Consulates in the United States:

Embassy of the Russian Federation/Consulate in Washington, DC

Tel: (202) 939-8907, 939-8918

Fax: (202) 298-5735, 986-1207

The Russian Consulate in New York City

Tel: (212) 348-0955

Fax: (212) 831-9162

The Russian Consulate in San Francisco

Tel: (415) 928-6878

Fax: (415) 929-0306

The Russian Consulate in Seattle

Tel: (216) 728-1910

Fax: (216) 728-1817

H. Commercial Services in Russia for American business visitors: Business visitors to Russia seeking appointments with the American Embassy in Moscow or Consulates General in St. Petersburg, Yekaterinburg and Vladivostok should contact the Commercial Sections at these posts in advance. (Please see Chapter 11, Useful Contacts, Section G for a complete list of U.S. Commercial Service offices in Russia.)

CHAPTER 10: FOREIGN TRADE & INVESTMENT STATISTICS

- Country Information

The population of Russia is 146.4 million (1999 growth: -0.7%) and is comprised of Russian – 83%, Tatar – 3.8%, Ukrainian – 2.3%, Other Turkic – 3.5%, Other – 7.4. The primary religions are Russian Orthodox (majority), Muslim (approximately 20%), Jewish, Buddhist, Catholic, and Protestant. Languages include Russian (official language spoken by over 90% of population), plus over 140 other languages and dialects. The government is a federal system, comprised of 89 republics, oblasts (regions), territories and autonomous areas. The official work week has 40 hours.

Appendix A: Domestic Economy

	1997 actual	1998 actual	1999 actual	2000 estimate
GDP (trillion rubles)	2,519	2,696	4,476	4,677
(\$ billion)	436	278	182	190
Real GDP growth rate (%)	0.4	-4.4	3.2	4.5
GNP Per Capita (\$ thousand)	2,740	unknown	unknown	unknown
GNP/Cap-Purchasing Power Parity	4,183	4,172	unknown	unknown
Inflation (average annual, in %)	11.1	184	35	20
Unemployment (%)	9.6	11.8	14.1	11.7
Foreign Exchange Reserves (\$ bln)	17.8	12.2	8.5	
Average Exchange Rate (rubles/\$)	5.78	9.97	24.5	28.0
Foreign Debt (\$ billions)	153.6	164.3	162.3	156
Debt Service Ratio	10.1	14.9	-	

Appendix B: Trade Data

Table 1: Annual Trade Data (1) (\$ billions)

	1997	1998	1999 actual
Total Russia Exports	88.4	71.3	71.8(1)
Total Russia Imports	73.6	43.6	30.2(1)

U.S. Exports to Russia	3.3	3.6	1.8(2)
U.S. Imports from Russia	4.3	5.7	5.8(2)

Table 2: U.S.-Russia Trade, First Half (2) January – June (\$ millions)

	1998	1999	2000	Q1 2000	Q2 2000
U.S. Exports	2,185	633	1,225	825	400
U.S. Imports	2,883	2,899	3,833	2,055	1,778
Total Trade	5,068	3,532	5,058	2,880	2,178
U.S. Trade Balance	- 698	-2,266	-2,608	-1,230	-1,378

Sources (Appendices A, B, C): Russian State Statistics Committee (Goskomstat). Trade data supplied by Russian State Customs Committee. U.S. Department of Commerce, Business Information Service for the Newly Independent States.

3. 2000 estimate by Goskomstat and consensus of sources.

Appendix C: Investment Data

Table 1: Top Ten Investors – By Year (in \$ millions)

	1998		1999	
	Total*	Direct	Total*	Direct
USA	2,238	1,170	2,921	2,104
Germany	2,848	328	1,695	330
Cyprus	917	403	923	-
Britain	1,546	205	734	178
Netherlands	877	610	541	516
Switzerland	411	40	405	-
France	1,591	15	312	69
Finland	185	141	248	138
Luxembourg	228	3	88	23
Sweden	146	70	70	38
All Others	786	1,376	1,623	864
Total	11,773	3,361	9,560	4,260

Source: Goskomstat

Table 1 shows a decline in total foreign investment between 1998 and 1999, from \$11.8 billion to 9.6 billion. Foreign direct investment (FDI) was up by 27% to 4.26 billion in 1999, according to the State Statistics Committee (Goskomstat). *Reflects direct, portfolio, and other investments including long-term credits.

Table 2: Top Investors – Accumulated Basis

	1998		1999	
	Percent	Million	Percent	Million
Germany	23.4	4,098	23.7	6,946
USA	23.5	4,111	21.7	6,349
UK	11.7	2,037	12.4	3,628
Cyprus	14.4	2,523	11.8	3,440
France	9.7	1,703	11.1	3,249
Netherlands	0	-170	2.4	707
Italy	0	0	2.2	630

Switzerland	0.2	27	1.5	438
Sweden	1.3	234	1.3	380
Japan	1.7	297	1.2	357
All Others	14.1	2,620	10.7	3,129
Total	100	17,480	100	29,253

Source: Goskomstat

The numbers in Table 2 can only be taken as a general indication of activity identified with a given country. They do not represent an accumulated stock of investment because they include portfolio and “other” investment and do not reflect any withdrawal of funds or decreases in value of assets.

Table 3: Foreign Investment: Top Regions

	1998		1999	
	Percent**	\$ millions	Percent**	\$ millions
Moscow (city)	49.8	5,860	27.8	2,658
Sakhalin Oblast	1.1	136	10.7	1,023
Omsk Oblast	3.8	452	9.3	889
St. Petersburg	3.5	413	7.3	698
Krasnodar	2.7	320	5.3	509
Chelyabinsk Oblast	0.5	59	5.1	491
Moscow Oblast	6.0	708	4.6	444
Arkhangelsk Oblast	0.2	23	3.6	349
Leningrad Oblast	1.6	191	3.0	288
Krasnoyarsk	0.1	8	2.1	195
All Others	30.7	3,603	21.2	2,016
Total	100	11,773	100	9,560

**Includes direct, portfolio and other investment.

Table 3 shows annual investment for 1998 and 1999 by region. Clearly Moscow received the lion’s share in both years, but this exaggerates Moscow's importance for direct investment, since portfolio investment would tend to be concentrated in Moscow, where most of the banks and investment companies are located. Moscow city attracted the largest volume of investments, mainly due to concentration of companies' headquarters and investment banks that guarantees attraction of direct and portfolio investments. The other regions attracted mainly direct investment due to development of fuel and energy projects – in Sakhalin and Omsk, the telecommunications and food industries in St. Petersburg and neighboring Leningrad region, food and consumer products industries in Krasnodar, and metals in Chelyabinsk and Krasnoyarsk.

Table 4: Foreign Investment: Top Sectors

	1998		1999	
	Percent	\$ millions	Percent	\$ millions
Fuel Industry	15.9	1,880	17.8	1,700
Trade/Catering	10.2	1,201	17.0	1,622
Management	21.0	2,477	15.5	1,481
Food Industry	12.5	1,426	14.8	1,415
Transport/Communic.	5.0	589	5.5	521

Ferrous Metallurgy	1.7	204	5.4	514
Non-Ferrous Metal.	2.7	323	4.3	414
Machine Building	2.6	305	4.1	395
Communication	2.3	271	4.0	386
CASM***	12.1	1,426	2.0	190
Lumber Industry	2.0	240	2.0	193
All Others	12.0	1,431	7.6	729
Total	100	11,773	100	9,560

***Commercial Activity Supporting the Market

Table 4 shows annual investment by sector. Whereas fuel and energy accounted for 16-17% both in 1998 and 1999, investment in “commercial activities supporting functioning of the market” declined from 12% in 1998 to 2% in 1999, investment in management declined from 21% to 15.5% in 1999. Investment in metallurgy (both ferrous and non-ferrous) doubled, while the positions of the other industries and sectors remain stable.

CHAPTER 11: USEFUL CONTACTS

A. Russian Government Agencies

Following is a listing of selected Russian government offices with responsibilities affecting business. This is not an exhaustive list, and companies seeking contact information for particular federal or regional government offices not appearing here are encouraged to contact the U.S. Commercial Service in Russia. (A listing of Russian Consulates - for obtaining visas for Russia - in the United States is found in Chapter IX of this report.) The country code for telephone and fax numbers in Russia is 7. City codes appear in parentheses.

Ministry of Economic Development and Trade

German Oskarovich Gref, Minister

1/3, 1st Tverskaya Yamskaya., Moscow

Tel: (095) 200-5298, fax (095) 251-6995

Ministry of Finance

Aleksey Leonidovich Kudrin, Minister of Finance

Ulitsa Ilyinka 9, Entrance 1, Moscow

Tel: (095) 298-9130; Fax: (095) 925-0889

Ministry of Energy

Aleksandr Sergeyvich Gavrin, Minister

7, Kitaigorodskiy Proyezd, Moscow 103074

Tel: (095) 220-5200; Fax: (095) 975-2045 (International Dept.)

Ministry of Agriculture and Food

Aleksey Vasilyevich Gordeyev, Minister

Orlikov Pereulok, 1/11, Moscow

Tel: (095) 207-4243 Fax: (095) 207-6437

Ministry of Communications & Information Technology

Leonid Reyman, Minister
7, Tverskaya Ul., Moscow 103375
Tel: (095) 292-7100; Fax: (095) 230-2097

Ministry of Anti-Monopoly and Entrepreneurship
Ilya Arturovich Yuzhanov, Minister
11, Sadovaya-Kudrinskaya Ul., Moscow, 123231
Tel: (095) 252-7445; fax: (095) 254-8300

Ministry of Taxes and Levies
Gennadiy Ivanovich Bukayev, Minister
Sergey Ivanovich Dunayev, Head, External Relations Dept.
23, Neglinnaya Ul., Moscow, 103381
Tel: (095) 925-4847; fax: (095) 913-6112

Ministry of Finance of the Russian Federation
9, Ilyinka Street, Moscow
Aleksandr Vladimirovich Denisov, Head, Foreign Relations Dept.
(Accreditation of banking, auditing firms)
Tel: (095) 298-9959; Fax: (095) 913-4311

Central Bank of Russia
Viktor Vladimirovich Gerashchenko, Chairman
Sergey Vladimirovich Tatarinov, Head of External and Public Relations
12 Neglinnaya Street, Moscow, 103016
Tel: (095) 923-1081; Fax: (095) 921-5476

State Customs Committee
Mikhail Valentinovich Vanin, Chairman, State Customs Committee
1a, Komsomolskaya Ploshchad, Moscow 107842
Tel: (095) 975-1918; Fax: (095) 975-4823
Internet site: custom-house.ru

State Committee for Standardization, Metrology and Certification (GOSSTANDART)
Gennadiy Petrovich Voronin, Chairman
9, Leninskiy Prospekt, Moscow 117049
Tel: (095) 236-6208, -4044; Fax: (095) 236-6231, 237-6032
Internet site: www.gost.ru

State Committee for Construction and Housing Policy (Gosstroy)
Anvar Shamukhamedovich Shamuzafov, Chairman
8, Stroiteley Ul., Bldg. 2, Moscow, 117987
Tel: (095) 930-1755; Fax: (095) 938-2202

State Statistics Committee (Russian official economic data)
Aleksandr Dmitriyevich Gulidov, Deputy Director General

39 Myasnitskaya Ul.
 Moscow 103450, Russia
 Tel: (095) 207-4676; Fax: (095) 207-4891

Russian Agency for Patents and Trademarks (Rospatent)
 Aleksander Dmitriyevich Korchagin, Director General
 30-1 Berezhkovskaya Nab., Moscow 121858, Russia
 Tel. (095) 243-5509, 240-3295; Fax: (095)-956-4374
 Internet site: www.rupto.ru

Russian Copyright Agency
 Vladimir Nikolayevich Tverdovskiy, Chairman of the Board
 Vadim Serafimovich Dunin, Head, Foreign Relations Department
 6a, Bolshaya Bronnaya Ul., Moscow 103670
 Tel: (095) 203-2996, -4599; Fax: (095) 200-1263

B. Selected Regional Governments

Moscow City Administration
 Iosif N. Ordzhonikidze,
 Deputy Mayor and Minister for External Relations
 13 Tverskaya Ulitsa, 103032, Moscow
 Tel: (095) 229-6360; Fax: (095) 883-6208

St. Petersburg City Administration
 Valentin Makarov, Deputy Chmn., Cmte. for External Relations
 1, Smolny, St. Petersburg
 Tel: (812) 271-0767; Fax: (812) 276-1633

Leningrad Oblast
 Sergey Naryshkin, Chmn., Cmte. for External Economic Relations
 Suvorovskiy Prospekt, 67, St. Petersburg, 193311
 Tel: (812) 278-5587; Fax: (812) 274-5986

Sverdlovsk Oblast Administration
 Igor Ivanovich Arzyakov, Dir., Foreign Relations Department
 1, Oktyabrskaya Ploshchad, Yekaterinburg 620031
 Tel: (3432) 51-54-97, 58-96-56; Fax: (3432) 51-98-70

Yekaterinburg City Administration
 Vladimir I. Lomovtzev, Dir., Foreign Relations Department
 1, Oktyabrskaya Ploshchad, Yekaterinburg 620031
 Tel: (3432) 51-13-07, 51-43-83; Fax: (3432) 51-90-05

Primorskiy Territorial Administration
 Vladimir Stepanovich Goncharuk, Chairman

Committee for Foreign Economic Relations and Regional Trade
22 Svetlanskaya ulitsa, 690110, Vladivostok
Tel: (4232) 22-08-52; Fax: (4232) 22-10-19
E-mail: chernous@primorsky.ru

Khabarovsk Territorial Administration
Sergey Ivanovich Lopatin, Chief
Foreign Economic Relations Dept.
56 ul.K.Marksa, Khabarovsk
Tel/fax: (4212) 32-41-21

Sakhalin Regional Administration
Vitaliy Nikolayevich Yelizarov, Head
Department of Foreign Economic Relations
32 Kommunisticheskiy prospect, "Sakhincenter", office 242
693000, Yuzhno-Sakhalinsk
Tel: (42422) 3-25-69 Fax: (42422) 3-49-08
E-mail: up_forecon@adm.sakhalin.ru

C. Contacts for Company Registration

State Registration Chamber of the Russian Federation
3/5, Smolenskiy Bulvar
Moscow 119835, Russian Federation
Vitaliy Pavlovich Seryegin, Chairman
Tel: (095) 246-8649, 246-3486; E-mail: srcinfo@corbina.ru
Nikolai Nikolayevich Saveliev, Head of the Information Service
Tel/Fax: (095) 245-2090
Internet site: www.palata.ru

Chamber of Commerce and Industry of the Russian Federation
Department of Accreditation
Sergey Borisovich Kulyba, Senior Expert
6, Ilyinka Street, Office 104
Moscow 103684
Tel: (095) 929-0260 Fax: (095) 929-0170

Registration Chamber of the Moscow City Administration
Branch, Registration of Foreign Companies
22, Pilyugina Street
Moscow 117393
Roald Nesterevich Lebedinskiy
Head of Branch Office
Tel: (095) 132-0500; Fax: (095) 202-2787

Moscow Chamber of Commerce and Industry

Eduard Konstantinovich Rodkin, Director for Foreign Economic Activities
 (Registration of Foreign Companies)
 22 Pilyugina Street
 Moscow 117393, Russian Federation
 Tel: (095) 132-7396, 132-7255; tel/fax: (095) 132-0047
 E-mail: mtp@glasnet.ru

D. State Duma (Lower chamber of Parliament):

Committee on Budget, Taxes, Banking and Finance
 Aleksandr Dmitriyevich Zhukov, Chairman
 1 Okhotny Ryad, Moscow
 Tel: (095) 292-3618; Fax: (095) 292-6016

Committee on Economic Policy
 Sergey Yuryevich Glazyev, Chairman
 1 Okhotny Ryad, Moscow
 Tel: (095) 292-4260; Fax: (095) 292-4322

Committee on Industry, Construction, and Hi-Tech
 Yuriy Dmitriyevich Maslyukov, Chairman
 1 Okhotny Ryad, Moscow
 Tel: (095) 292-0498; Fax: (095) 292-3763

E. Trade Associations and Chambers of Commerce in Russia

American Chamber of Commerce in Russia (AmCham)
 Scott M. Blacklin, President
 Kosmodamianskaya Nab. 52, Building 1, 8th floor, Moscow 113054
 Tel: (095) 961-2141; Fax: (095) 961-2142
 Email: amcham@amcham.ru

American Chamber of Commerce in St. Petersburg (AmCham)
 Alexey Kim, Executive Director
 25 Nevsky Prospekt, St. Petersburg, Russia, 191186
 Tel: (812) 326-2590; Fax: (812) 326-2591
 Email: St.Pete@AmCham.ru@amcham.ru

Russian Chamber of Commerce and Industry
 Stanislav Alekseyevich Smirnov, President;
 Yuriy Nikolayevich Denissenkov, Head, Protocol Department
 6, Ilyinka Ul., Moscow 103684
 Tel: (095) 929-02-86, -60, -61, -62, -63; Fax: (095) 929-0356

Moscow Chamber of Commerce and Industry
 Yuriy Ivanovich Kotov, President

22 Pilyugina Street
Moscow 117393, Russian Federation
Tel: (095) 132-7396, 132-7255; fax: (095) 132-0047
E-mail: mtp@glasnet.ru

St. Petersburg International Business Association
Natalya Kudryavtseva, Executive Director
36 Shpalernaya ul., 3rd floor, St. Petersburg, 191123
Tel: (812) 325-9091; Fax: (812) 279-9789
Email: spiba@online.ru

St. Petersburg Chamber of Commerce and Industry
Leonid S. Grigoryev, Executive Director
46-48, Ul. Tchaikovskogo, St. Petersburg, Russia, 191194
Tel: (812) 279-1812; Fax: (812) 272-6406
Email: spbcc@spbcci.ru

Vladivostok International Business Association (VIBA)
c/o U.S. and Foreign Commercial Service, Vladivostok
32 Pushkin Street, Vladivostok, Russia 690000
Tel: (4232) 300-093; Fax: (4232) 300-092
e-mail: csvlad@online.ru

Council for Trade and Economic Cooperation (CIS-USA)
Boris Petrovich Alekseyev, President
3, Naberezhnaya Shevchenko, Moscow 121248
Tel: (095) 243-5514, -5470; Fax: (095) 230-2467

U.S. Wheat Associates
Ul. Bolshaya Molchanovka, 23/38, Stroyeniye 2, Office 3
121069 Moscow
Tel: 7 (095) 956-9081 Fax: 7 (095) 956-9080

American Soybean Association
1st Kolobovskiy Pereulok, Bld. 6, Stroyeniye 3
103051 Moscow
Tel: 7 (095) 795-0664 Fax: 7 (095) 795-0665

U.S. Feed Grains Council
1st Kolobovskiy Pereulok, Bld. 6, Stroyeniye 3
103051 Moscow
Tel: 7 (095) 795-0662, 795-0663 Fax: 7 (095) 795-0663

U.S. Poultry and Egg Export Council (USAPEEC)
1st Kolobovskiy Pereulok, Bld.6, Stroyeniye 3
103051 Moscow

Tel: 7 (095) 795-0660 Fax: 7 (095) 795-0661

U.S. Meat Export Federation
 Leninskiy Prospekt, 2, Business Center, 9th Floor
 Tel: 7 (095) 239-1578 Fax: 7 (095) 230-6849

U.S. Rice Federation
 Ul. 1812 Goda, Bld.2, Office 123
 121170 Moscow
 Tel/fax: 7 (095) 249-3833

Washington Apple Commission: Far-Eastern Office
 Ul. Komsomolskaya 3, 6th Floor
 690002 Vladivostok
 Tel/fax: 7 (4232) 25-88-60
 E-mail: casper@gin.global-one.ru

F. U.S. Government Contacts in Russia

Embassy of the United States of America in Russia
 James F. Collins, United States Ambassador to Russia
 Bolshoy Devyatinskiy Pereulok 8
 Moscow 121099
 Tel: (095) 728-5180; Fax: (095) 728-5159
 After-hours (emergencies): Tel: (095) 728-5109

Stephan Wasylo, Minister Counselor for Commercial Affairs
 The U.S. Commercial Service in Moscow
 Bolshaya Molchanovka 23/38, Moscow 121069
 Tel: (095) 737-5030; Fax: (095) 737-5033
 E-mail: moscow.office.box@mail.doc.gov

Daniel Wegandt, Minister Counselor for Economic Affairs
 8, Bolshoy Devyatinskiy Pereulok, Moscow 121099
 Tel: (095) 728-5179; Fax: (095) 728-5006

Geoff Wiggin, Minister Counselor for Agricultural Affairs
 8 Bolshoy Devyatinskiy Pereulok, Moscow 121099
 Tel: (095) 728-5222; Fax: (095) 728-5133

Brian Cox, Treasury Attache
 8, Bolshoy Devyatinskiy Pereulok, Moscow 121099
 Tel: (095) 728-5630; Fax: (095) 728-5048

Paul R. Smith, Consul General
 U.S. Consulate-General in St. Petersburg

Ulitsa Furshtadskaya 15
 Tel: (812) 275-1701; Fax: (812) 110-7022
 After-hours emergency Tel: (812) 274-8692 or 271-6455.

Michael Richardson, Principal Commercial Officer
 The U.S. Commercial Service in St. Petersburg
 25, Nevski Prospekt, St. Petersburg, Russia 191186
 Tel: (812) 326-2560; Fax: (812) 326-2561/62
 Email: stpetersburg.office.box@mail.doc.gov

Lysbeth J. Rickerman, Consul General
 U.S. Consulate-General in Vladivostok
 32 Pushkin Street
 Tel: (4232) 268-458 or 300-070
 Fax: (4232) 300-091 or 300-072

Stuart Schaag, Principal Commercial Officer
 The U.S. Commercial Service in Vladivostok
 32 Pushkin Street, Vladivostok, Russia 690000
 Satellite Tel/fax: (509) 851-1211
 Tel: (4232) 300-093; Fax: (4232) 300-092
 Email: csvlad@online.ru

James Bigus, Consul General
 U.S. Consulate-General – Yekaterinburg
 15A Ulitsa Gogolya, 4th Floor
 Tel: (3432) 564-619 or 564-691; Fax: (3432) 564-515.

Aleksandr Deyanov, Commercial Assistant
 The U.S. Commercial Service in Yekaterinburg
 15A Gogol Street, Third Floor
 Yekaterinburg, Russia
 Tel: (3432) 564-619; Fax: (3432) 564-515
 Tel: (3432) 564-736 (Foreign)
 Email: alexander.deyanov@mail.doc.gov

Federal Aviation Administration (FAA)
 Dennis B. Cooper, Senior Representative
 C/O American Embassy, Brussels
 27 Boulevard du Regent, B-1000 Brussels, Belgium
 Tel: 322 508-2700; Fax: 322 230-06428
 Tel: (095) 728-4850; Fax: (095) 728-5350

G. Washington-Based U.S. Government Business/Commercial Contacts for Russia

Business Information Service for the New Independent States (BISNIS)

Anne Grey, Director
U.S. Department of Commerce, International Trade Administration
Washington, DC 20230
Tel: (202) 482-4655; Fax: (202) 482-2293
Email: bisnis@ita.doc.gov

U.S. Department of Commerce - Market Access and Compliance
Russia and Independent States Division
Jack Brougher, Director
U.S. Department of Commerce, Rm.3318
Washington, DC 20230
Tel: (202) 482-3952; Fax: (202) 482-3042
Email: jack_brougher@ita.doc.gov

Special American Business Internship Training Program (SABIT)
Liesel Duhon, Director
U.S. Department of Commerce, Rm.3204
Washington, DC 20230
Tel: (202) 482-0073; Fax: (202) 482-2443

U.S. Bureau of Export Administration (Re: export controls)
Export Counseling Division
U.S. Department of Commerce, Rm.3898
Washington, DC 20230
Tel: (202) 482-4811; Fax: (202) 482-3911

U.S. Export-Import Bank
Paul J. Tumminia, Director Russia & NIS States
811 Vermont Avenue, NW
Washington, DC 20571-0999
Tel: (202) 565-3413; Fax: (202) 565-3628

Overseas Private Investment Corporation
1100 New York Avenue, N.W., Washington, D.C. 20527
Tel: (202) 336-8618; Fax: (202) 408-5145
U.S. Trade and Development Agency
Jennifer L. Snyder, Country Manager, Russia & Turkey

US Trade & Development Agency
1621 North Kent St. Suite 200
Arlington, VA 22209-2131
Tel: (703) 875-4357; Fax: (703) 875-4009

U.S. Department of State, Office of Russian Affairs
Seth Winnick, Director
2201 C Street NW,

Washington, DC 20520
Tel: (202) 647-6747; Fax: (202) 736-4710

U.S. Agency for International Development
Office of Privatization and Economic Restructuring
Washington, D.C. 20523
Tel: (202) 736-4410

U.S. Department of Agriculture
Russian Area Officer
14th St. and Independence Avenue SW
Washington, DC 20250
Tel: (202) 720-3080

H. U.S.-Based Multipliers and International Organizations with Interests in Russia

U.S.-Russia Business Council
Eugene K. Lawson, President
1701 Pennsylvania Ave, NW Suite 650
Washington, DC 20006
Tel: (202) 956-7670; Fax: (202) 956-7674

American-Russian Chamber of Commerce and Industry
Helen Teplitskaya, President
200 World Trade Center Chicago
2400 Merchandise Mart
Chicago, IL 60654
Tel: (312) 494-6562; Fax: (312) 494-9840

Russian-American Chamber of Commerce
Deborah Palmieri, President
6200 South Quebec St, Ste 210
Englewood, CO 80111
Tel: (303) 689-8642; Fax: (303) 689-8762

Foundation for Russian-American Economic Cooperation
Carol Vipperman, President
1932 First Avenue, Ste 803
Seattle, WA 98101
Tel: (206) 443-1935; Fax: (206) 443-0954

National Association of State Departments of Agriculture
Richard Kirchhoff, Executive Vice President
1156 15th St, NW, Ste 1020
Washington, DC 20005

Tel: (202) 296 – 9680; Fax: (202) 296-9686

The World Bank and International Bank for Reconstruction and Development
 U.S. Department of Commerce Liaison
 Janice Mazur, Commercial Liaison
 Office of the U.S. Executive Director
 1818 H Street, NW, Washington, DC 20433
 Tel: (202) 458-0120/0118/1954; Fax: (202) 477-2967
 Janice.Mazur@mail.doc.gov

International Finance Corporation (IFC)
 Mark Constantine
 1850 Eye Street, NW, Washington, DC 20433
 Tel: (202) 473-9331; Fax: (202) 676-1513
 Moscow Office: Roger Gale
 6, Neglinnaya St., Moscow
 Tel: (095) 928-5328; Fax: (095) 927-6832

Office of Multilateral Development Banks,
 U.S. & Foreign Commercial Service
 U.S. Department of Commerce, Room H-1107
 Washington, D.C. 20230
 Tel: (202) 482-3399; Fax: (202) 273-0927

- Other Multipliers and International Organizations with Interests in Russia
 European Bank for Reconstruction and Development (EBRD)
 Gene Harris, U.S. Department of Commerce Liaison
 Office of the U.S. Executive Director, EBRD
 One Exchange Square, London EC2A 2EH, United Kingdom
 Tel: 011-44-171-338-7532; Fax: 011-44-171-338-6487

CHAPTER 12: MARKET RESEARCH

A comprehensive, updated list of market research reports produced by the U.S. Commercial Service (CS) and other USG agencies worldwide is available on the National Trade Data Bank (see Chapter 1). The U.S. Commercial Service prepares two basic kinds of market research reports, relatively brief (2-5 pages) International Market Insight reports and longer (typically 15-20 pages) Industry Sector Analyses. All CS reports are available from our offices in Russia and are distributed to the U.S. business community by BISNIS (see contact info in Chap. 11, sections F and G). Recent submissions may be found on the BISNIS website: www.bisnis.gov. Additionally, titles for all CS reporting done on market opportunities in Northwest Russia for the last 3 years can be found on CS St. Petersburg's website: usconsulate.spb.ru/fcs. Below is a list of all the ISAs submitted by CS Russia recently, and when they were reported (or are due):

Oil & Gas Transportation Projects	01/2000
Water & Waste Water Treatment Equipment in Northwest Russia	01/2000
Meat Processing Equipment	02/2000
Wireless Telecommunications	03/2000
Packaging Equipment	03/2000
Machine Building in the Urals	03/2000
Water Treatment in Russian Far East	06/2000
Agricultural Equipment in the Russian Far East	06/2000
Home Health Care Products	07/2000
Forestry & Woodworking Equipment in Northwest Russia	08/2000
Motor Vehicle Production	08/2000
Value-Added Telecommunications Services	08/2000
Railway Industry	08/2000
Production Equipment for the Aluminum Industry	08/2000
Computer Software	09/2000
Emerging Leasing Opportunities	09/2000
Transportation Services in the Russian Far East	10/2000
Printing and Labeling Equipment	11/2000
Forestry & Woodworking Equipment in the Russian Far East	11/2000
Beauty & Healthcare Products	01/2001
Networking Equipment	02/2001
Power Generation Equipment in the Urals	02/2001
Sporting Goods	02/2001
Textile Fabrics	03/2001
Airport Development	03/2001
Auto Parts & Accessories in the Russian Far East	03/2001
Automotive Aftermarket	03/2001
Banking Services	03/2001
Pet Products & Accessories	04/2001
Plastic Industry Equipment	04/2001
Pulp & Paper Equipment	05/2001
Business Equipment	06/2001
Refrigeration and Freezing Equipment	06/2001

CHAPTER XIII: TRADE EVENT SCHEDULE

This list includes trade fairs in Russia recommended by the U.S. Commercial Service for their potential for U.S. exports. For specific information on participation in any of the trade events, please contact one of the CS Russia posts at the contact numbers provided in Chapter 11 of this report.

Stroyindustriya i Arkhitektura 2000, September 4-8, Moscow

Architecture, Construction and Building Industry International Exhibition

Site: Expocenter, Moscow

Organizer: "Mezhvystavka Firm", JSC Expocenter

Krasnopresnenskaya Nab., 14
 123100, Moscow, Russia
 Phone: 7 (095) 256-5164; Fax: 7 (095) 205-6055
 Email: mezvist@expocentr.ru Web Site: <http://www.expocentr.ru>

Expogorod 2000, September 4-8, Moscow
 6th International exhibition of urban infrastructure and municipal management
 Site: Expocenter, Moscow
 Organizer: "Mezhvystavka Firm", JSC Expocentr
 Krasnopresnenskaya Nab., 14
 123100, Moscow, Russia
 Phone: 7 (095) 255-3738; Fax: 7 (095) 205-6055
 Email: mezvist@expocentr.ru Web Site: <http://www.expocentr.ru>

Pap-For Russia 2000, September 12-15, 2000, St. Petersburg
 6th international exhibition and conference for Russia's pulp, paper,
 and forestry industries
 Organizer: E.J. Krause Inc.
 Phone: 7 (812) 534-7418; Fax: 7 (812)-550-0983
 Email: ejkrause@mail.wplus.net Web Site: <http://www.ejkrause.com>, U.S. Commercial Service
 Contact: Mikhail Minkevitch
 Email: misha.minkevitch@mail.doc.gov

Bolnitsa 2000 (Hospital 2000) - CS St. Petersburg Medical Equipment Catalog Booth
 September 25-28, St. Petersburg
 Site: Lenexpo Exhibition Center in St. Petersburg
 In cooperation with ITE Group PLC, CS St. Petersburg is hosting an American product literature booth at the largest exhibition for equipment and services for hospitals, health clinics and laboratories in Northwest Russia.
 U.S. Commercial Service Contact: Mikhail Minkevitch
 Email: misha.minkevitch@mail.doc.gov
 Phone: 7 (812) 326-2582 Fax: 7 (812) 326-2561
 Show co-organizer: Primexpo
 103 Bolshoy Prospekt, V.O.
 St. Petersburg 119106, Russia
 Phone: 7 (812) 119-5166 Fax: 7 (812) 119-5135
 Email: strax@primexpo.spb.ru

Moscow International Sport & Leisure Show, October 5-8, 2000
 Krasnaya Presnya Exhibition Complex, Expocenter
 Organizer: L&A Exhibitions and Conferences
 18 Dolgorukovskaya, bld. 3
 Moscow Russia 103006
 Phone: 7 (095) 935-7350
 Fax: 7 (095) 935-7351
 E-mail: sport@la.ru Web Site: www.la.ru

Agroprod mash 2000, October, 2000, Moscow
 Fifth International exhibition of farm machinery, food processing
 technology and equipment, packaging equipment
 Site: Expocenter, Moscow
 Organizer: Mezhvystavka
 14 Krasnopresnenskaya, Moscow, 123100, Russia
 Phone: 7 (095) 255-3733; Fax: 7 (095) 205-6055
 Email: mezhvist@expocentr.ru Web Site: www.expocentr.ru

Internetcom'2000, October 3-6, 2000, Moscow
 IT show for networking and communication technologies
 Site: JSC Expocentr, Moscow
 Organizer: ITE Group PLC
 Phone: 7 (095) 935-7350
 Fax: 7 (095) 935-7351
 Email: internetcom@la.ru Website: www.la.ru

Department of Commerce-Sponsored Clean Energy Trade Mission
 October 18-21, Moscow and St. Petersburg
 In support of President Clinton's International Clean Energy Initiative, the Deputy Assistant
 Secretary for Basic Industries will lead a district heating equipment trade mission to Moscow and
 St. Petersburg in order to increase exports of U.S. district heating equipment and advance
 specific U.S. equipment exporting business interests.
 Contact: Rachel Halpern, Energy Division, Basic Industries
 Phone: (202) 482-4423; Fax: (202) 482-0170
 Email: Rachel_Halpern@ita.doc.gov

Batimat 2000 - CS St. Petersburg Building Supplies and Equipment Catalog Booth
 October 25-28, 2000, St. Petersburg
 In cooperation with ITE Group PLC, CS St. Petersburg is hosting a product literature booth to
 showcase U.S. building products and construction equipment.
 Phone: 7 (812) 326-2581; Fax: 7 (812) 326-2561
 U.S. Commercial Service Contact: Alexander Kanksy
 Email: alexander.kansky@mail.doc.gov

Council of American States in Europe (CASE) Catalog Show
 October 30, 2000, St. Petersburg
 Multi-state catalog show as part of a CASE Nordic/Baltic Catalog Event.
 CASE Contact: Liz Wheeler, State of Missouri European Office in London
 Phone: (44) 0 20 7771 7017; Fax: (44) 0 20 7771 7028
 Email: lizwheeler@cibgroup.co.uk

Ore and Metals, October 31 - November 3, Yekaterinburg
 Organizer: Uralskie Vystavki
 Site: Exhibition Pavilion at Vysotskogo, 14

Yekaterinburg 620027

Phone/Fax: 7 (3432) 701-795, 701-796, 701-568, 701-637

Email: vystavka@dialup.mplik.ru Web Site: <http://www.vystavka.ru>

Energy, November 14-17, Perm

Organizer: Permskaya Yarmarka

65, Gagarina Boulevard, Perm

Phone: 7 (3422) 481-405, 488-324 Fax: 7 (3422) 481-559

Email: fair@fair.perm.ru Web Site: <http://www.fair.perm.ru>

EquipHotel Moscow, November 14-17, 2000

Organized by L&A Moscow

103006 Moscow, Russia

Dolgorukovskaya Street, 18, Bldg. 3

Phone: 7 (095) 935-7350

Fax: 7 (095) 935-7351

E-mail: equiphotel@la.ru

Mebel 2000 (Furniture), November 14-18, Moscow

International exhibition of furniture, fittings, upholstery

Site: Moscow, Expocenter

Organizer: JSC Expocentr, Firm "Mezhvystavka"

Krasnopresnenskaya Nab. 14

123100, Moscow, Russia

Phone: 7 (095) 255-3723, 255-3733; Fax: 7 (095) 205-6055

Email: mezvist@expocentr.ru Web Site: <http://www.expocentr.ru>

Peter Food/World Food 2000, November, 2000, St. Petersburg

Food products and food processing equipment

Site: SKK Peterburzhsky (Sports center), St. Petersburg

Organizer: ITE and L&A

Byron House, 112A Shirland Road, London W9 2EQ, UK

Phone: 44 (171) 286-9720, fax 44 (171) 286-0177

In Russia: 16 M. Dmitrovka, Moscow, 103006 Russia

Phone: 7 (095) 935-7350, fax: 7 (095) 935-7351

Web Site: www.ite-exhibitions.com Web Site: www.expoweb.net

Ingredients Russia 2000, November, 2000, Moscow

Third international exhibition of ingredients for food processing industry

Site: Sports Complex Olimpiysky, Moscow

Batimat Mosbuild'2001 April, Moscow

International building and construction exhibition

Site: Moscow, Expocenter

Organizer: ITE Group

Byron House, 112A Shirland Road

London W9 2EQ, U.K.
 Phone: 44 (0) 171-286-9720; Fax: 44 (0) 1717286-0177
 Email: press@ite-exhibitions.com Web Site: <http://www.ite-exhibitions.com>
 L & A Moscow
 Dolgorukovskaya, 18, Bldg. 3
 Phone: 7 (095) 935-7350; Fax: 7 (095) 935-7351
 Email: info@la.ru
 Zdravo-Okhraneniye'2000, Moscow

Healthcare 2000 - 10th International Health Care Exhibition
 November 28-December 2, 2000
 Broad range of medical equipment and supplies, pharmaceuticals
 and medical technologies
 Site: Expocenter on Krasnaya Presnya, Pavilions 2,3, 6
 Organizer: JSC Expocentr, Firm Mezhevystavka
 Phone: 7 (095) 255-3760, Fax: 7 (095) 205-6055
 Email: gorb@expocentr.ru
 Web site: <http://www.expocentr.ru>
 Contact: Alla Gorbaneva
 Co-organizer: L&A Exhibitions and Conferences/ITE Group
 Phone: 7 (095) 935-7350, Fax: 7 (095) 935-7351
 Email: main@la.ru Web site: www.la.ru

Russian Forest 2000, December 6-8, Vologda
 International forestry products and equipment exhibition and conference
 in the heart of Russia's forestry region.
 Organizer: Russkii Dom (Russia House) and the Forestry Economy
 Department of the Russian Federation
 Phone: 7 (8172) 72-33-24; Fax: 7 (8172) 72-93-75
 Email: rusdom@deltaplus.ru
 U.S. Commercial Service Contact: Mikhail Minkevitch (St Petersburg)
 Email: misha.minkevitch@mail.doc.gov

Upakovka and UrackItalia 2000, December 2000, Moscow
 11th international exhibition of packaging machinery and equipment
 Site: Expocenter, Moscow
 Organizer: JSC Expocentr
 14 Krasnopresnenskaya Nabarezhnaya, Moscow
 Phone: 7 (095) 255-3799 ; Fax: 7 (095) 205-2800
 Web Site: www.mdna.com

Modern Packaging and Design
 February 1-4, 2001, St. Petersburg
 Organizer: Soyuzpack
 Phone: 7 (812) 312-2740; Fax: 7 (812) 312-1304
 Email: office@multisprint.spb.ru

Aqua Therm 2001, February, Moscow

International exhibition of sanitary, heating, plumbing, and air-conditioning equipment

Site: Moscow, Expocenter

Organizer: M.S.I. Vertriebs GmbH

1080, Vienna, Austria

Neudeggasse, 8/2

Phone: 43 1 402-8954; Fax: 43 1 402-8954/54

Email: msi@msi-fairs.com Web Site: <http://www.msi-fairs.com>

M.S.I. Vertriebs GmbH Office in Moscow

M.Nikitskaya, 23

121069, Moscow, Russia

Phone: 7 (095) 290-4013, 202-9349; Fax: 7 (095) 290-6002

Fidexpo, February 21-25, 2001, St. Petersburg

Furniture and interior design exhibition

Organizer: Restec Exhibition Company, ITE Group, and GEM

Phone: 7 (812) 164-6516; Fax: 7 (812) 112-2348

Email: root@restec.spb.ru Web Site: www.restec.ru

Bakery and Macaroni 2001, March 2001, Moscow

Fifth international specialized exhibition of bakery and macaroni products and bakery equipment

Site: All-Russian Exhibition Center (VVTs), Moscow

Organizer: Marketing Center "Expokhleb"

Exhibition pavilion #69, VVTs, Moscow

Phone: 7 (095) 181-9904 Fax: 7 (095) 974-0061

Email: yamvid@dol.ru Web Site: www.breadbusiness.ru

MIMBS/ MIBS, March, 2001, Moscow

Motorcycle, Bike and Scooter Show & Boat and Yacht Show

Site: All Russian Exhibition Center

Organizer: ITE GROUP PLC.

105 Salusbury Road

London NW6 6RG UK

Phone: +44 (0) 2075965000; fax +44 (0) 2075965111

E-mail enquiry@ite-exhibitions.com

Web site: www.ite-exhibitions.com

Tires and Rubber, March 2001, Moscow

Site: Olimpiyskiy

Organizer: Maxima

117838 Moscow Russia

Profsoyuznaya Ulitsa, 3, Office #410

Phone: 7 (095) 124-6766/ 129-9272; Fax: 7(095) 124-7060/ 6163

E-mail: waits@centro.ru

Moscow International Sport & Leisure Show, March 15-18, 2001

Organizer: L&A Exhibitions and Conferences

Site: Krasnaya Presnya Exhibition Complex, Expocenter

Phone: 7 (095) 935-7350

Fax: 7 (095) 935-7351

E-mail: sport@la.ru Web Site: www.la.ru

Batimat Mosbuild'2001 April, Moscow

International building and construction exhibition

Site: Moscow, Expocenter

Organizer: ITE Group

Byron House, 112A Shirland Road

London W9 2EQ, U.K.

Phone: 44 (0) 171-286-9720; Fax: 44 (0) 1717286-0177

Email: press@ite-exhibitions.com Web Site: <http://www.ite-exhibitions.com>

L & A Moscow

Dolgorukovskaya, 18, Bldg. 3

Phone: 7 (095) 935-7350 Fax: 7 (095) 935-7351

Email: info@la.ru

U.S. Commercial Service Contact: Lubov Savchenko

Email: luba.savchenko@mail.doc.gov

Comtek' 2001, April 23-27, 2001, Moscow

A major international computer and software show

Site: Expocenter, Moscow

Organizers: ITE Group PLC

Tel.: +44 (0) 20 7596 5085; Fax: +44 (0) 20 7596 5129

Co-organizer: Crocus International

Krivokolenny per. 9, Bldg. 1

Phone: 7 (095) 924-5644; Fax: 7 (095) 232-2092

Email: crowshow@aha.ru Web Site: www.aha.ru/~crowshow

1st International E-Business Exhibition and Conference for E-Business

April 23-27, 2001

Site: Expocenter, Moscow

Organizer: ITE Group Plc

Tel.: +44 (0) 20 7596 5085; Fax: +44 (0) 20 7596 5129

Contact: Elena Peredel'skaya

Email: eperedelskaia@ite-exhibitions.com

TRANSRUSSIA 2001, May 2001, Moscow

The Moscow International Transport and Logistics Exhibition and Conference

Site: Expocenter

Organizer: ITE GROUP PLC.

105 Salusbury Road

London NW6 6RG UK

Phone: +44 (0) 2075965000; fax +44 (0) 2075965111

E-mail enquiry@ite-exhibitions.com

Web site: www.ite-exhibitions.com

World Food Technology 2001, May 2001, Moscow

Food processing equipment and technologies

Site: All-Russian Exhibition Center (VVTs), Moscow

Organizer: ITE and L&A

Byron House, 112A Shirland Road, London W9 2EQ, UK

Phone: 44 (171) 286-9720, Fax: 44 (171) 286-0177

In Russia: 16 M. Dmitrovka, Moscow, 103006, Russia

Phone: 7 (095) 935-7350; Fax: 7 (095) 935-7351

Web Site: www.ite-exhibitions.com Web Site: www.expoweb.net

Bakery 2001, May 2001, Moscow

Bakery equipment and ingredients

Site: Moscow

Organizer: Expocenter.

12 1-Krasnogvardeysky Proezd, Moscow, 123100

Phone: 7 (095) 967-0461; Fax: 7 (095) 967-0462

NICE Ideal Beauty 2001, May 2001, St. Petersburg

Cosmetics, Skin Care, and Beauty Products

Organizer: Restec Exhibition Company, ITE Group, and GEM

Phone: 7 (812) 164-6516; Fax: 7 (812) 112-2348

Email: root@restec.spb.ru Web Site: www.restec.ru

Public Health Care of Siberia, May 2001, Novosibirsk

Medical equipment, pharmaceuticals, medical services

Organizer: Siberian Fair

220/10 Krasny Prospekt

Novosibirsk 630049, Russia

Phone: 7 (3832) 26-98-01, 10-62-90, 10-62-92; Fax: 7 (3832) 25-98-45

Email: welcome@sibfair.su Web site: www.sibline.ru/fair/eng/structure

Medtechnika'2001, May 28-June 1, Moscow

International Annual Exhibition of Medical Equipment

Site: Expocenter on Krasnaya Presnya Exhibition Center

Organizer: JSC Expocentr, Firm Mezhhvystavka

Site: Pavilion 4 and Forum

14 Krasnopresnenskaya nab.

Moscow 123100, Russia

Phone: 7 (095) 255-3760; Fax: 7 (095) 205-6055

Email: gorb@expocentr.ru Web site: http://www.expocentr.ru

Contact: Alla Gorbaneva

Co-organizer: L&A Exhibitions and Conferences/ITE Group
Contact in Moscow (see above)
PosUpack 2001, June, Moscow
Fifth international exhibition of packaging machinery and equipment
Site: Sokolniki, Moscow
Organizer: Sokolniki Exhibition Center
Pavilion #4, 1 Sokolnichesky Val, Moscow
Phone: 7 (095) 268-6323; Fax: 7 (095) 268-0891

Frozen Foods 2001, August 2001, Moscow
Freezing equipment and frozen foods
Site: Olimpiysky, Moscow
Organizer: ITE (see above)
Olimpiysky Complex, Moscow
Phone: 7 (095) 935-7350, Fax: 7 (095) 935-7351

MAKS 2001, August 2001, Zhukovskiy, Moscow region
International Aviation and Space Salon
Site: Zhukovskiy Airfield, Gromov Space Research Institute
Organizer: "Aviasalon"
Phone/ Fax: 7(095) 556-5265/ 5413

Moscow Autosalon, August 2001
Site: Expocenter
Organizer: ITE GROUP PLC.
105 Salusbury Road
London NW6 6RG UK
Phone: +44 (0) 2075965000; fax +44 (0) 2075965111